Bachelor thesis

Economic effects of international sanctions: The Ukrainian crisis

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List of abbreviations

EU	European Union
US	United States
UN	United Nations
OPEC	Organization of Petrol Exporting Countries
GATT	General Agreement on Tariffs and Trade

U.S.S.R.	Union of Soviet Socialist Republics
GDP	Gross Domestic Product
GNP	Gross National Product
GNI	Gross National Income
IEEPA	International Emergency Economic Powers Act
$US	US Dollar
EUR	Euro
RUB	Russian Ruble

1 Introduction

1.1 Research problem

The beginning of the pro-Russian unrest in the Ukraine on 23rd February 2014 generated a massive international outcry. After the annexation or restitution of the Crimea region, sanctions were called for and introduced in order to protect the territorial integrity of the Ukraine in the case of the Western nations or to respond to sanctions against oneself in the case of Russia. With the escalation of the conflict, leaving to separatists proclaiming the founding of independent nations, sanctions became more important, trying to deescalate through diplomacy and economic pressure. This leaves open the question of whether the sanctions from both sides showed any economic effect after all. This bachelor thesis will try to determine sanctions imposed by the EU (European Union), the United States, the Russian Federation, and other countries or organizations and evaluate their economic effects on the respective economy.

1.2 Research method

This bachelor thesis will be the result of intensive literature research concerning the theory of sanctions and their efficacy. In order to evaluate the effects and effectiveness of imposed sanctions, a model to determine efficacy will be derived from literature. This model is then used in combination with statements and reports by the respective parties, and economic key figures to assess economic effects of the sanctions on both sides.

1.3 Course of investigation

This thesis will start off with a definition of the term sanction and its typology. In the second part, sanctions that were imposed during the conflict will be classified in the different kind of sanctions mention in the previous part. At last an assessment of the economic effects of the sanctions will be undertaken to find out if the sanctions could be successful in the long run to change the targets behavior.

2 Theory of sanctions and their efficacy

2.1 Definition of sanction

Prior to World War I economic sanctions were usually forerunners or companions of a military conflict or war. It was former US (United States) president Woodrow Wilson who seriously considered economic sanction as a stand-alone diplomatic tool in order to prevent and avert military conflicts.[1] He described sanctions as followed:

"A nation that is boycotted is a nation that is in sight of surrender. Apply this economic, peaceful, silent, deadly remedy and there will be no need for force. It does not cost a life outside the nation boycotted, but it brings a pressure upon the nation which, in my judgment, no modern nation could resist." - President Woodrow Wilson, 1919 [2]

The League of Nations, founded in the time between the World Wars, and the United Nations, founded after World War II, consequently incorporated the idea of economic sanctions as a way to enforce a diplomatic instead of militaristic approach. In his classical description of sanctions, Hufbauer defines them as "*the deliberate government-inspired withdrawal of trade [...] or financial relations [to obtain] foreign policy goals.*"[3] According to this definitions sanctions use economic actions (withdrawal of trade and financial relations) to achieve or coerce a political goal. This definition was recently supplemented by the fact that also the mere threat of economic sanctions could be enough to coerce political goals.[4] According to Portela, this definition ignores the fact that these measures could be also used to achieve economic goals. Pape tries to distinguish between both economic sanctions, which try to lower the target state's welfare by means of reducing international trade in order coerce the target state's government into changing its political behavior[5], and trade wars in which the sender state uses economic harm as a threat to the target state in order to achieve a more favorable outcome, i.e. in terms of trade.[6]

[1] Elliott et al., 2008
[2] Rosecrance, 2006, p. 81
[3] Hufbauer et al., 1985, p. 2
[4] Elliott et al., 2008
[5] Pape, 1997, p. 93f
[6] Pape, 1997, p. 94

The fact that sanctions generally affect the population of a target state and is not limited to the government, should in theory create unrest in the population, in order to create another force against the target government to change its political behavior. According to Koutrakos both sender and target can consist of either a single state or a group or a coalition of states. In practice, while some sanctions originate only from a single nation (e.g. the United States), also a coalition of states, or an international organization, such as the European Union and the United Nations, can impose sanctions against targets.

To summarize the content of this chapter, sanctions need a sender which can be a state, a coalition of states or an international organization. Sanctions follow a political goal while using economic measures to coerce a target state into changing its behavior. The political goal of changing the target state's behavior will be discussed later in the thesis.

2.2 Typology of sanctions

While in the past sanctions consisted of simple embargos that blocked all trade between nations the recent past showed a larger portfolio of measures to sanction the target. This chapter will name and explain the different types of sanctions as well as evaluate possible pros and cons.

Export limitations

As the name of this type of sanction suggests, the sender state limits its exports to the targeted state. These limitations could affect all exports to that country but usually are limited to exports that are crucial for the target state's economy in order to inflict damage. If limited, the target state is cut off of crucial supply for its economy or has to look elsewhere for substitute import, which can come at a higher cost, thereby still inflicting damage to the economy.[7] Arms and "sophisticated items" are favored items that are restrained with export limitations, due to the, in general, higher economic development of the sender nation. But Hufbauer points out that especially after World War II the economic development of the world was particularly rapid, limiting the effect and leverage of unilateral economic limitations as

[7] Hufbauer et al., 2007, p. 45

sanctions, since more states can supply similar goods of high sophistication.[8] It has to be mentioned that although the focus of export limitations is on the target state that the domestic economy is to suffer from damages too. In order to inflict economic damage on the target state, trade relations between the sender and the target prior to the sanctions must have been relatively firm, meaning that the domestic economy is also reliant on export revenue of the target nation.[9] As an example of a case, where export limitations were used as a standalone tool to sanction the target, was during the "Russian Grain Embargo", initiated by US president Jimmy Carter as a reaction to the former U.S.S.R.'s invasion of Afghanistan. In that case a total of 17 million tons of grain were withheld and not exported to the U.S.S.R.[10]

Import restrictions

While under export sanctions the target state still has the possibility to look elsewhere for substitute goods, import sanctions can be much more powerful. This type of sanction limits the target state in exporting their goods to other countries. This can put a lot of pressure on the target country if the sanctioned good is the main source of export revenue, such as in the case of limited oil exports from Iran in 2013 due to Iran's ongoing nuclear program.[11] Oil exports accounted for nearly 50% of Iran's government expenditure so a limit of 1 million barrels per day was a big cut from the usual 2.5 million barrels per day that Iran exported during 2011.[12]

Financial sanctions

Financial sanctions can take on different forms. For one they can be the retention of financial aid such as development aid for developing countries. They can be quite potent because developing nations as targets usually are particularly dependent on foreign financial aid. In cases where the target nation is not a developing nation, financial sanctions are supposed to exacerbate the refinancing of banks and the government. Similarly, import sanctions impede the target state's ability to finance itself through trade. Another form of modern financial sanctions is the freezing of a target state's assets outside their country, limiting their access to

[8] Hufbauer et al., 2007, p. 92
[9] Hufbauer et al., 2007, p. 90
[10] Luttrell, 1980
[11] H.R.850 - Nuclear Iran Prevention Act of 2013, 2013
[12] Katzman, 2014

it.[13] Asset freezes do not necessarily have to be punitive measures. In August 1990 the foreign assets of Kuwait were frozen in order to hinder Saddam Hussein from gaining access to it after his invasion of Kuwait.[14]

Targeted sanctions

All aforementioned types of sanctions can have severe impact on the population of the target state. Financial sanctions that are targeted to hurt the financial or political elite in the target countries might also affect the population in form of a devaluation of the local currency or inflation. Targeted sanctions are as their name suggests aimed at specific targets. These targets can be individuals (e.g. politicians, financial elite) or entities (e.g. banks, companies). These sanctions can include visa and travel bans that prohibit the target to travel out of the country or the freezing of assets in foreign territory. Other measures can include trade restriction for certain industry sectors in the targeted nation. The advantage of targeted sanctions is that devastating humanitarian effects of sanctions are circumvented by limiting sanctions to a small group of individuals or entities.[15] The fact that all other types of sanctions will also negatively affect the public can lead to the public sympathizing with the sanctioned government that can point the finger towards the sender country and blame it for the situation.[16]

2.3 Legal Framework of sanctions

In order to prevent the abuse of using sanctions as an economically damaging tool and to cohere with international law, international organizations linked the usage to certain self-implemented frameworks. As a matter of fact, the commonly used term "sanctions" is not defined by international law, hence the usage of the term "restrictive measure" by the EU in legal acts.[17] Similarly the UN never mentions "sanctions" and is also referring to the term "measures".

[13] Hufbauer et al., 2007
[14] Cortright, 2002, p. 96
[15] Hufbauer et al., 2007, p. 47f
[16] Damian, 2001, p. 33
[17] Portela, 2010, p. 21

The basis for economic sanctions by the UN is found in chapter VII Art. 41 in the UN Charta. Chapter VII specifically focuses on what actions are to be taken "*with respect to threats to the peace, breaches of the peace, and acts of aggression*."[18] Under Art. 39 the UN Security Council is enabled to determine "*the existence of any threat to the peace, breach of the peace, or act of aggression*" and to make recommendations on how to deal with such situations - either by economic sanctions (Art. 41) or by military force (Art.42).[19] For the purpose of this thesis, Art. 41 is of particular interest. It states:

"*The Security Council may decide what measures not involving the use of armed force are to be employed to give effect to its decisions, and it may call upon the Members of the United Nations to apply such measures. These may include complete or partial interruption of economic relations and of rail, sea, air, postal, telegraphic, radio, and other means of communication, and the severance of diplomatic relations.*" - Art. 41 UN Charter[20]

Aforementioned measures may include, but are not limited to economic sanctions. Other measures taken under Art. 41 by the UN Security Council were the establishment of international tribunals, e.g. the International Criminal Tribunal for the Former Yugoslavia, and the International Criminal Tribunal for Rwanda, or compensation funds, e.g. the UN Compensation Commission.[21] Art. 41 is therefore much more flexible than its predecessor Art. 16 of the League of Nations charter which specifically defined what actions were to be taken in cases of interstate war.[22]

In accordance with Art. 27 of the UN charter, it requires the affirmative vote of all 9 members of the Security Council in order to impose economic sanctions or other measures under Art. 41. That means that any of the 5 permanent members of the Security Council, in possession of the veto right, must not vote against it in order to pass.[23]

Economic sanctions, or in the case of the EU restrictive measures, are brought forward by the EU Council in interest of the Common Foreign and Security Policy. The legislative basis for

[18] United Nations Charter Chapter VII
[19] United Nations Charter Chapter VII
[20] United Nations Charter Chapter VII
[21] Stagno et al. 2013, p. 2
[22] League of Nations Charter
[23] United Nations Charter Chapter V

autonomous sanctions by the EU that do not stem from UN sanctions is Art. 215 (1) of the Treaty on the European Union:

"*Where a decision, adopted in accordance with Chapter 2 of Title V of the Treaty on European Union, provides for the interruption or reduction, in part or completely, of economic and financial relations with one or more third countries, the Council, acting by a qualified majority on a joint proposal from the High Representative of the Union for Foreign Affairs and Security Policy and the Commission, shall adopt the necessary measures. It shall inform the European Parliament thereof.*" - Art. 215 (1) Treaty on the EU[24]

Other than its predecessor Art. 301 in the Treaty on establishing the European Community, Art. 215 includes an additional paragraph to govern restrictive measures against natural or legal persons and groups or non-State entities.[25] Other restrictive measures imposed by the EU usually stem from UN Resolutions that were previously mentioned. Restrictive measures by the EU "*must respect human rights and fundamental freedoms, in particular due process and the right to an effective remedy in full conformity with the jurisprudence of the EU Courts.*"[26]

As for the United States, the congress gave the president the power to enact both export and import sanctions. The legal basis for export sanctions can be found in the "Export Administration Act of 1979", which grants the president of the United States the power to "*control*" exports.[27] In combination with the "International Emergency Economic Powers Act" (IEEPA) of 1977 the president of the United States has the power to restrict exports from the United States to another country in case of a national emergency. Additionally to the export restrictions, the IEEPA gave the president of the United States the power to enact financial sanctions under Sec. 203a (1)(A)(i)-(iii).[28] In 1985 the "Export Administration Act of 1985" extended the president's power to also control imports to the US.

The basis for "special economic measures" by the Russian Federation is the "Russian Federation Federal Law on Special Economic Measures" (РОССИЙСКАЯ ФЕДЕРАЦИЯ

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[24] Official Journal of the European Union, 2012
[25] Official Journal of the European Union, 2012
[26] European Union External Action
[27] The Export Administration Act of 1979, 2014
[28] The International Emergency Economic Powers Act of 1977, 1977

ФЕДЕРАЛЬНЫЙ ЗАКОН О специальных экономических мерах) which was adopted and approved from the Russian State Duma and Federation Council in 2006. Similar to other laws, measures under the "Law on Special Economic Measures" can only be applied in situations that require "*immediate reaction to an internationally wrongful act or hostile action of a foreign state or its agencies and officials that threaten the interests and security of the Russian Federation and (or) violated the rights and freedoms of its citizens, as well as in accordance with the resolutions of the Security Council of the United Nations*." (Law on Special Economic Measures, Art. 1, translated from Russian in English) The special economic measures in question are specified in Art. 3 of the law and include financial sanctions (Art. 3(2)2), termination or suspension of trade agreements or other international treaties (Art. 3(2)3), and change of export and (or) import duties (Art. 3(2)5). A total of 8 different measures are mentioned in the law.[29]

Signees of the General Agreement on Tariffs and Trade (GATT) are prohibited to make use of certain measures like import and export restrictions due to the possible abuse for protectionist reasons. A reoccurring statement in legal frameworks concerning economic sanctions is the term "(inter-)national emergency". Only under these circumstances, according to Art. XXI, are signees of the GATT allowed to enact such measures. Other exceptions include fissionable material and the traffic of arms.[30]

2.4 Determining the efficacy of sanctions

One of the leading experts in sanction efficacy is Gary Clyde Hufbauer. Throughout hundreds of observations of sanctions in all parts of the world he and his team developed variables that determine success or failure of sanctions. Some of these variables will be explained during this chapter as well as the addition of hypotheses concerning EU sanctions.

Policy Outcome (political variable)

As previously mentioned, sanctions consist of a political goal. These goals can have an immense impact of whether sanctions are successful or not. The first group of policy goals is "modest change". Modest changes in policy, although being called modest, are not minor or

[29] Russian Federation Federal Law on Special Economic Measures
[30] World Trade Organization

negligible. An important aspect of modest policy changes as a goal is that they threaten neither the target state's power nor its military competence, but they can be an essential move in terms of power projection of the sender. An example for modest changes is demanding the release of prisoners,[31] like in the case of Greece in 1994 when the Greek government partly blocked an European Currency Unit community aid package to Albania because of an ongoing trial against leaders of an ethnic Greek political organization.[32] [33] The fact that modest changes do not directly harm the target's government power aligns with Portela's hypothesis about its effectiveness: "*The less threatening the goals of the sanctions are to the leadership's permanence in power, the more likely they are to be effective.*"[34]

Going to the other side of the spectrum, where the target's government power is most affected are policy goals that want a change in regime. According to Hufbauer this policy goal was by far the most prominent in his 204 observations. 80 observations (~39%) out of the 204 were considered to have a regime change as the main goal of sanctions. Most of them happened during the Cold War (46 out of the 80 observations). Although a change in regime seems to be the most difficult goal to achieve, Hufbauer is positive that in roughly 30% of the cases they could be rendered a success. It is important to mention that economic sanctions were not the only tool that was used in success cases. Quasi-military force played an important role, before, during, and after the Cold War era.[35] The fact that military actions, may they be indirect or direct, were frequently used during success cases undermines the efficacy of economic sanctions when a change in regime is the appointed goal.

Another policy goal is the prevention or disruption of so called military adventures. Its roots can be directly traced back to Wilsons' quote that was mentioned in the beginning. Statesmen believed that economic sanctions could be a substitute for a military intervention. Out of all the different policy goals, the disruption of military adventures is the least successful. According to Hufbauer at a disappointing rate of only 1 in 5 successful outcomes and no successful outcomes after 1960.[36] Following this approach of substituting for economic sanctions to circumvent military intervention, the League of Nations' sanctions against Benito

[31] Hufbauer et al., 2007, p. 66
[32] Zarros, 1994
[33] Zarros, 1994
[34] Portela, 2010, p. 46
[35] Hufbauer et al., 2007, p. 68f
[36] Hufbauer et al., 2007, p. 69f

Mussolini in his conquest of Abyssinia deem to be the most prominent failure. This case will be mentioned later on due to its importance in other cases of efficacy.

Other than the high failure rate of disrupting already ongoing conflicts the preventive measure of impairing the military potential from the start, if not by much, is more successful (a third of the observed cases). Measure included the retention of military technology, in more recent times the retention of nuclear weapon technology in order to weaken the military position by means of a technological gap. But regarding this theory these types of policy changes should be most effective against smaller target states that already have a disadvantage in military strength. According to Hufbauer, trying to use the same tactics against major powers like the U.S.S.R. and China during the Cold War were, if all, ineffective and the only negative effects were imposed by mismanagement of the respective communist camp.[37]

Reasons for sanctions (political variable of the sender)

The reasoning and motives of sender countries can be a huge factor in the efficacy of the imposed sanctions. One of the negative examples is the need of the United States to project power as a major power in the world. They frequently developed sanctions in order to maintain their leading role in world politics. Albeit the rather remote chance of being successful at changing the target state's behavior, the US excels in over-antagonizing the target and overstate their misbehavior.[38] However, this is not necessarily a problem made by the US itself, but also from the international community which is eager for US involvement in certain situations. In these cases sanctions usually lack decisiveness which makes them less effective. Similar lack of decisiveness happens, when sanctions only serve a domestic political purpose, instead of leading to tangible success in the target or elsewhere. A particularly infamous incident is an example for that. After the United Kingdom and the League of Nations were implementing sanctions against Italy at a point where they came too late, the then British opposition politician David Lloyd George said: "*They came too late to save Abyssinia [...], but they are just in the nick of time to save the British Government*."[39] In other words, the goal of these sanctions was to react to public pressure rather than actually saving Abyssinia.

[37] Hufbauer et al., 2007, p. 70ff
[38] Hufbauer et al., 2007, p. 5f
[39] Rowland, 1975, p. 723

International organizations like the League of Nations and the United Nations were founded on the basis of preserving of international peace and security as well as promoting human rights. The UN issues sanctions due to these reasons and because of breach of international law. Due to its size and a common goal sanctions rooting in UN Resolutions should have the decisiveness and focus on significant situations in order to be more effective.

Economic Size

When it comes to the economic size, one could tend to believe that size of the respective economy is crucial to the success of sanctions. In 80% of the observed cases by Hufbauer the sender state's Gross National Product (GNP) was ten times larger than the GNP of the target state. Back then, this has mainly to do with the powerful position of the United States, the United Kingdom, and the former U.S.S.R, and nowadays with the emergence of the United Nations (UN) and the EU. Furthermore it shows that all prior mention nations usually tried to achieve policy goals in far inferior states than themselves. But in the cases where the advantage in GNP of the sender was as substantial as mentioned, economic sanctions were only successful in one third of the cases. Albeit having the economic size advantage could lead to more successful economic sanctions, in some cases the opposite is the case. For example in the case of the 1973 oil embargo of the Organization of Arab Petroleum Exporting Countries (OAPEC) which created immense leverage despite their relatively lower GNP.[40]

Trade relations

As previously mentioned, trade relations are a big part in successful economic sanctions. Measures like import restrictions or export limitations can be rendered useless if there was little to no trade prior to the measures. This variable is very close to the economic size of the sender because the larger the sender state, the more dependent the target state potentially could be to the sender state's trade. While on average the import and export trade between sender and target accounts for, on average, 10 percent, in cases of success is on average at 30%. The disruption of only a small proportion of this trade could lead to enormous economic damage in the target state.

[40] Hufbauer et al., 2007, p. 89f

Summarizing the content of this part some important factors for effective economic sanctions can be derived:

1 Being reasonable

Policymakers and architects of economic sanctions tend to overestimate the power of sanctions. Reasonable expectations and goals in combination with the right sanction tool can improve effectiveness of these tools.

2 The closer the more effective

In a globalized world international trade can be the door to many things and the closer a target is to oneself in terms to trading linkage, the easier it is to threaten the target with economic sanctions.

3 Being decisive

In terms of economic sanctions decisiveness is important. One nation in a usually strong coalition of senders can jeopardize the outcome of the sanctions if it deviates from the others.

4. Careful planning

Sanctions do cost the sender state as well as the target. Careful planning can prevent excessive costs on the sender side and lead to a stable connection between members of a coalition so that no one has to bear more cost than necessary.

3 Sanctions during the crisis

After having defined and specified different variants of different economic sanctions, this chapter will attempt to classify the economic sanctions that were invoked during the recent conflict. A summary of all relevant sanctions that will be classified in this chapter can be found in the Appendix in Table 4. It features all sanctions that were in parts relevant to the EU, the United States, and the Russian Federation. Sanctions solely focusing on matters of Novorossiya, the Donetsk People's Republic, and the Lugansk People's Republic were left out due to lack of relevancy.

During the ongoing crisis a total of 39 nations issued sanctions. Of the 39 nations, 28 are members of the EU. Besides the EU, these nations issued sanctions during the conflict: Albania, Australia, Canada, Iceland, Japan, Montenegro, Norway, Russia, Switzerland, Ukraine, and the United States. Out 39 nations, 38 have issued economic sanctions against the Russian Federation or individuals that are related to the Russian Federation. Albeit facing a bigger opposition Russia has not issued sanctions against all 38 nations, leaving out 9 while sanctioning primarily the EU, the United States, Canada, Norway, and Australia. In the following part a closer look will be taken in order to classify sanctions that were imposed in 2014.

The starting point for the sanctions was the annexation or restitution of the Crimea region of or in the Russian Federation in March 2014. It spawned discontent in the international community and economic sanctions were deemed necessary. In early March 2014 President Barack Obama declared a national emergency under which, in addition of the IEEPA, he was now able to issue sanctions against Russia. The first sanctions were issued on March 17 by the EU, Norway, Canada, and the United States. All nations issued targeted sanctions against specific individuals. Additionally, the EU suspended bilateral talks with the Russian Federation concerning future cooperation. All sanctioned individuals suffer from visa bans and frozen assets in the issuing countries. The reason for this first wave of targeted sanctions was the threat of the territorial integrity of the Ukraine. Targeted sanctions issued on March 17 by the United States and Canada were more focused towards Russian politicians, while the EU and Norway, in addition to targeted sanctions of Russian politicians, issued targeted sanctions against politicians of the Autonomous Republic of Crimea that were especially involved in the annexation or restitution. Due to the position of the Russian politicians, this could be considered as a warning shot of the sender nations. Sanctioned politicians were receiving the visa bans and got their assets frozen for publicly being in support of deployment of Russian forces in the Ukraine, while holding offices like Member of the Committee on culture, science, and information of the Federation Council, or Deputy Speaker of the Federation Council.

Following shortly thereafter, between March 20 and March 24, a second wave of sanctions were issued. The United States now targeted not only "*Government Officials*" but also individuals considered to be "*Members of the Inner Circle*" as well as the first entity sanctioned during the conflict - the Bank Rossiya. The so called "*Members of the Inner Circle*" are businessmen and bankers, said to be close to senior Russian government officials and Vladimir Putin and thereby got their assets frozen in foresight of limiting said officials' or Vladimir Putin's access to said assets. On the same day, the Russian Federation issued their first set of sanctions against United States politicians. All 9 individuals, including Senior Advisor to the President of the United States Daniel Pfeiffer, and high ranking Republican politician John McCain, were sanctioned with visa bans. Shortly thereafter, the Russian Federation released another list of sanctioned individuals, this time focused on Canadian politicians. Similarly to the sanctions against the US individuals, the restrictive measures were visa bans. Not one EU individual, politician or other, were sanctioned by the Russian Federation during 2014 and in the ongoing conflict in 2015. Only the head of the Chechen Republic, Ramazan Kadyrov, froze assets and issued visa bans against Barack Obama, and four EU politicians, including Martin Schulz, President of the European Parliament, and José Manuel Barroso, President of the European Commission.[41] However, the sanctions' relevancy is highly questionable. Similarly to US sanction, the EU extended the list of sanctioned individuals that now also include individuals closer to Vladimir Putin, i.e. Deputy Prime Minister of the Russian Federation Dmitry Rogozin.

Besides Albania, Iceland, and Montenegro joining in on efforts with sanctions against Russian individuals and the EU once more expanding their list of sanctioned individuals, the sanctions of Switzerland against individuals is of high interest. While the freezing of assets in the EU and other countries might not be particularly punitive to the targeted individuals, frozen assets in the Swiss Confederation, known for their financial service industry, could actually affect the targeted individuals. The newly sanctioned entities by the United States are entities owned by previously sanctioned businessmen or entity in order to enforce the access to assets. May and June 2014 saw Australia emerging as a new force sanctioning the Russian Federation with similar action of the US and the EU with sanctions against individual persons. The EU, Norway and Switzerland extended their list of sanctioned individuals and entities.

With the escalation of the military conflict in the Donbass region, the United States and EU introduced, in addition to extended sanctions of individuals, financial sanctions against Russian energy companies and state-owned banks, limiting their ability to refinance on the European and US American financial markets. Furthermore, the first trade restrictions in form of an arms embargo against the Russian Federation, and targeted sectorial trade restrictions (export sanctions) against entities in the energy sector were introduced by the EU. In reaction to that, Russia issued a one year import ban on agricultural products, raw materials and other foodstuffs against the EU, United States, Australia, and Norway. This is, except for the European arms embargo, the first and only significant trade restriction in form of import

[41] Kadyrov, 2014

sanctions during the conflict. The time until December 2014 saw the extension and tightening of previously invoked sanctions. Newly introduced sanctions were targeted export restrictions of dual use goods by the EU against entities in the Russian Federation and a total trade and business embargo by the United States against the Crimea region.

Due to the perceived distance between Japan and the conflict in the Ukraine, it seems rather remarkable that Japan is joining efforts to sanction the Russian Federation. Similarly to the EU, Japan suspended talks for future economic and scientific cooperation with Russia and issued targeted sanctions that included frozen assets and visa bans for certain individuals. While the targeted sanctions against individuals are merely symbolic because it has to be questioned if these individuals even have assets in Japan[42], a new set of sanctions is not. The distance of Japan and the conflict is great, but Russia is particularly close to Japan's borders. Renewed tensions about two disputed islands that were seized by the former Soviet Union at the end of World War II[43] led Japan to extend sanctions against Russia, however mentioning the Ukraine crisis as a reason, and issued targeted sanctions against five Russian banks, including the largest Russian bank Sberbank, limiting their operations in Japan.

At the end of 2014 all of the largest Russian banks were sanctioned by the US and the EU and a total of 108 individuals were specifically targeted by the EU and 43 individuals by the US. It is apparent that during the Ukraine crisis the focus was upon targeted sanctions against well sought out entities, sectors, and individuals instead of widespread economic trade sanctions. The only exception to that is the import ban by the Russian Federation. Other than that, Russia was relatively conservative in issuing sanctions in contrast to the Western nations. Furthermore the lack of UN sanctions in the midst of the conflict stem exclusively from Russia's position in the Security Council, making it impossible for the UN to pass any resolution concerning the Ukraine crisis. Sanctions by the Western nations were imposed to secure the territorial integrity and sovereignty of the Ukraine.

[42] Fifield, 2014
[43] BBC News Asia, 2014

4 Economic effects during the crisis

4.1 Could sanctions in theory be effective in the conflict

In the previous chapter it was evident that there are two major parties active in the conflict. On the one hand Western nations, mainly represented by the United States and the EU, and on the other side the Russian Federation. Ignoring specific economic sanctions, this part will try to determine, if economic sanctions from either side could be effective concerning the theory mentioned in the second chapter. Data from the seven largest contributors, namely the EU, the United States, Japan, the Russian Federation, Switzerland, Norway, and Australia will be assessed.

As previously discussed, economic size can create leverage to enforce powerful economic sanctions. The Gross National Product (GNP) or Gross National Income (GNI) in $US will be used as a measurement unit of economic size. With a combined GNI of $42.5 trillion (EU $18.0; US $16.9; Japan $5.9; Switzerland $0.7; Norway $0.5; Australia $0.4 - all in trillion $ in 2013 [44]) the economic size of the Western nations is over 21 times larger than the economic size of the Russian Federation ($1.99 trillion in 2013[45]). Albeit economic size being important, if there is no trade linkage between the target and the sender, economic sanctions will lack efficacy.

Due to the geographical position, Russia has a very strong trading relationship with Europe. Out of Russia's Top 20 importers (of 2013), that make up 80% of all Russian imports, only 5 did not impose sanctions against Russia in the recent conflict.[46] This is nearly identical to Russia's top 20 export nations (of 2013); again making up 80% of all Russian exports; this time seven countries did not issue economic sanctions during the conflict.[47] According to those numbers it is fair to say that the Russian Federation has close ties to the sender nations in terms of trade. An especially interesting trade relation is between the Russian Federation and the United States. While on the Russian side the US are an important partner for both import (3rd largest with 5.31% in 2013[48]) and export (15th largest with 2.12% in 2013[49]), on

[44] The World Bank, 2015
[45] The World Bank, 2015
[46] International Trade Statistics Yearbook, 2013
[47] International Trade Statistics Yearbook, 2013
[48] International Trade Statistics Yearbook, 2013

the US side Russia is not quite as important, ranking 18th, with only 1.19%, in imports and not even ranking in the top 25 in terms of export. Especially the export of machinery from the US to Russia is quite significant, with a value of 26,768 million Euro. Issuing trade sanctions on this group of exports could prove effective against the Russian economy, while not risking a backlash in costs for the US economy due to the insignificance of Russia as a target for export overall. The inference gathered from those numbers is that Russia would face more economic damage from US trade sanctions than vise versa. As previously mentioned only very few states out of Russia's top 20 trading partners refrained from issuing sanctions against them. This has mainly to do with the fact that in that list are almost exclusively states that are member of the EU. As a region, the EU ranks both in imports (47% of all Russian imports in 2013[50] [51]) and exports (46% of all Russian exports in 2013[52] [53]) first. While the EU is Russia's most important trade partner in both import and export business, the Russian Federation itself ranks 2nd in terms of import (12.3% of all imports of the EU in 2013[54]) and 4th in terms of export (6.9% of all exports of the EU in 2013[55]). The numbers suggest that Russia seems to be more dependent towards the EU, while the EU has a more diversified import and export business with the rest of the world which could be a sign that Russia might not be as important for them as the EU is for Russia.

To possibly verify or falsify this hypothesis, this part will take a closer look on the composition of groups of goods and goods exported and imported from both the EU and the Russian Federation to the respective other. In the following the source for trade data was extracted from the Eurostat database of the year 2013, because a full set for 2014 did not exist at the point of writing this thesis. Data from other databases will be indicated. All monetary values are in million EUC/EURO and display the seasonally and working day adjusted trade value or in case of conversion from $US to Euro, an exchange rate of 1.2 USD to 1 EUR will be used. Starting off with the EU, the total value of exports to the Russian Federation amounts to 119,502.5. Of that, 104.216,2 or about 87% are considered exported manufactured goods (SITC 5-8). Of that exported manufactured goods, 54% are Machinery and transport equipment (SITC 7) and about 20% "Chemicals and related products, n.e.s." (SITC 5).

[49] International Trade Statistics Yearbook, 2013
[50] Eurostat, 2015
[51] The World Bank, 2015
[52] Eurostat, 2015
[53] The World Bank, 2015
[54] European Commission Directorate General for Trade, 2014
[55] European Commission Directorate General for Trade, 2014

Looking at that from the Russian side, the total amount of imports according to SITC 7 have a value of 118,299.2 and of SITC 5 32,462.5. Comparing these numbers, it is evident that the EU's top exports to the Russian Federation are additionally in both cases nearly half, and in the case of chemicals (SITC 5) even more than 60% of all imports (cf. Figure 1). These numbers in combination with the fact that Russia makes up "only" 6.9% of all European exports seem to make a strong case for Russia's dependency of imports from the EU.

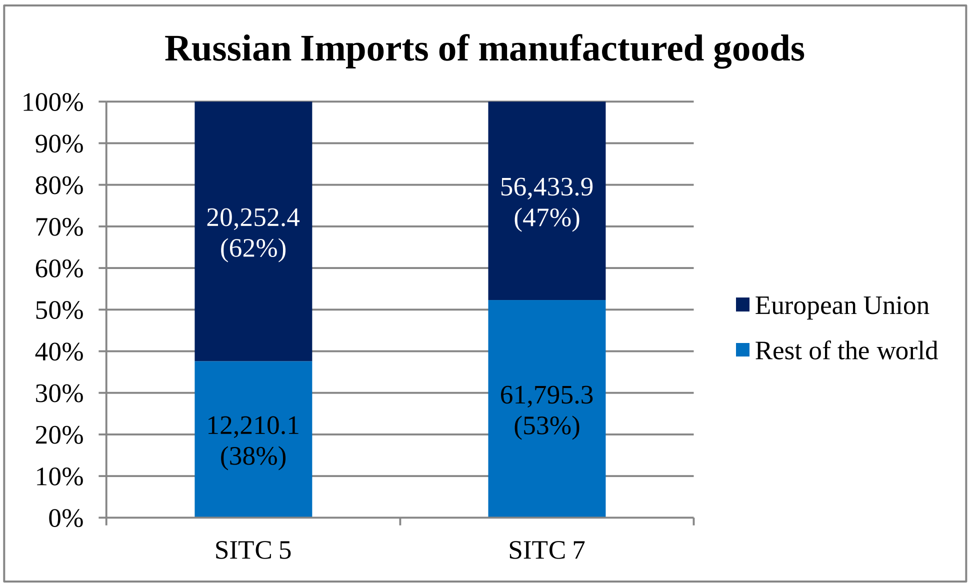

Figure 1 Russian imports of manufactured goods **Data: Eurostat; The World Bank (2015); own illustration, values in mio Euro**

Continuing to answer the question whether the Russian Federation is more dependent towards the EU than vise versa, this part will take a closer look on exports from Russia to the EU. Undoubtedly leading Russia's exports are goods from the SITC group 3. This group consists of "coal, coke and briquettes", "petroleum, petroleum products and related materials", "gas, natural and manufactured" as well as "electric current". In total SITC 3 goods amount to 310,068.3 or 70.5% of all Russian exports of 2013.[56] Exports from the Russian Federation to the European Union accounted for a value of 207,412. Of that, 160,421.5 or in other words 77% were goods of the SITC group 3. So it seems as if the European Union is dependent on Russia's energy supply in form of natural gas, oil, etc. According to Eurostat, the EU imported goods of SITC 3 with a value of 500,026.6. The European Union imported one third of their oil and gas demand from the Russian Federation. Going back to Russia's export, 51% of the total exported goods of SITC 3 go to the EU. This leads to a crucial trade relationship

[56] The World Bank, 2015

between Russia and the EU. On the one hand, the EU is "only" importing 33% of energy resources from Russia, on the other hand making up 51% of Russia's total energy exports. Sanctioning Russia's Oil and Gas industry could severely impact the economy. Yet this effect would backlash relatively quickly on the EU. In order to import or export goods of SITC 3 a certain infrastructure, like pipelines, is a necessity. Moreover these types of infrastructure take years to establish. This leads to the conclusion that the EU, in case of an import sanction against Russian oil and gas, cannot simply turn to another partner for its demand. This results in the evaluation that import sanctions of Russian oil and gas might prove very effective in causing economic damage in Russia, but leading to enormous cost on the sender side as well. Furthermore, sanctions from Russia that restrict the export of oil and gas would be equally unfeasible.

Albeit having a stalemate position sanctioning oil and gas imports and exports, the EU has another option of obvious sanctions. As previously discussed and illustrated, machinery and chemical imports from the EU make up 47% (machinery) and 62% (chemicals) of all Russian imports of these goods. On EU side the picture is quite different.

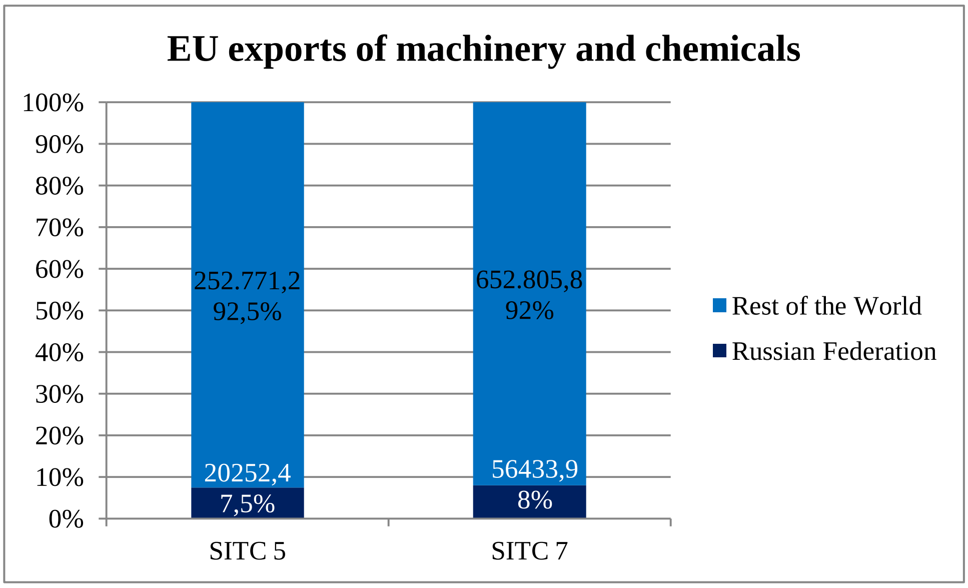

Figure 2 EU exports of machinery and chemicals **Data: Eurostat (2015); own illustration**

As illustrated in Figure 2, circa 8% of both goods of this kind are exported to Russia. So while Russia is highly dependent on European manufactured goods imports, the share of exports to Russia does not nearly have the importance to the EU. This means that sanctions targeting these goods especially would hurt the Russian economy much more than it would cost the

EU. Additionally, other than with oil and gas, the EU can find other buyers, while it can prove difficult to find a supplier for Russia that can deliver such high demand, especially in times when the EU is not the only sanctioning party. Moreover, this leaves Russia short on possible retaliation sanctions, because, as previously discussed, sanctioning oil exports is not feasible due to the dependency on both sides.

The other nation's impact is questionable. Australia's trade linkage with Russia is especially meager: Only 875 million A$ (603.45 million Euro) worth of exports and 1,521 million A$ (1,048.97 million Euro) worth of imports, making up only 0.3% of all exports and 0.4% of all imports in 2013.[57] Similarly questionable with impact in terms of trade is Switzerland with only 811.6 million CHF (758.5 million Euro) worth of imports from the Russian Federation, a share of only 0.4% of all imports in 2014. The exports are in fact a bit more significant with a total of 2,804.1 million CHF (2,620.65 million Euro) and a share of 1.3% of all exports.[58] While the impact of trade does not make Switzerland a potentially important sender of trade sanctions, the fact that Switzerland is a major financial hub in Europe may very well be of importance as a potential sender with impact of financial sanctions, which will be discuss later on in this part.

Dependence of Russian banks of foreign capital (in billion $US)

	Net capital export/ import by the private sector (2 + 5)	Net capital export/import by banks (3 + 4)	Of which foreign assets	Of which foreign liabilities	Net capital export/import by other sectors
Periode	(1)	(2)	(3)	(4)	(5)
2000	-24.8	-2	-3.5	1.5	-22.8
2001	-15	1.3	-1.4	2.7	-16.2
2002	-8.1	2.5	-1.1	3.6	-10.6
2003	-1.9	10.3	-1	11.3	-12.2
2004	-8.9	3.5	-3.6	7.1	-12.4
2005	-0.1	5.9	-13.4	19.2	-6
2006	41.4	27.5	-23.6	51.2	13.9
2007	81.7	45.8	-25.1	70.9	35.9
2008	-133.7	-56.9	-65.1	8.2	-76.8
2009	-56.1	-30.4	11.8	-42.1	-25.8
2010	-35.3	15.9	-1.8	17.7	-51.2

Note: Exports are negative numbers, imports are positive numbers

Table 1 Dependence of Russian banks of foreign capital Source: Alexeev, Weber (2013)

[57] Department of Foreign Affairs and Trade Australia, 2013
[58] Swiss Customs Administration, 2015

The last major country to speak of is Japan and its trade relation to the Russian Federation. Other then the last two nations Switzerland and Australia, the trade linkage between Russia and Japan is more significant. Japan ranks 7th in Russian imports (share of 4.31% of total) and 6th in exports (share of 3.73% of total). Russia ranks a bit lower on Japans side, only 12th in imports (share of 2.84% of total) and 14th in exports (share of 1.53% of total). The composition of trade between the two nations is very similar to the one between Russia and the EU. Japan is mainly importing oil and gas from Russia (16,219 million Euro) while exporting primarily machinery and other manufactured goods (8.563 million Euro).[59] While sanctioning the goods, neither side would have an advantage. It would be slightly inconvenient for both but the limited share in trade makes it rather insignificant for both in the long run.

A prerequisite for large, growing economies like the Russian federation is the presence of a stable financial industry, including e.g. banks. Prior to the "*Russian Federation Federal Law on Insurance of Household Deposits in Banks of the Russian Federation*" of 2003, only private deposits in the state-owned Sberbank were insured by law.[60] Despite this law, up to this day, Russian private households and companies distrust their banks. Instead of saving their money in deposit accounts, private household prefer cash, mostly in the form of US Dollars, real assets, or offshore bank accounts. This distrust leaves Russian banks in a predicament; without the collection of deposits on the one hand, they cannot satisfy the growing demand for credit on the other hand. According to Alexeev and Weber, the ratio of bank loans to GDP rose from 11.6% to 37.3%, while the ratio of deposits to GDP rose only from 6.1% to 15.6% in the same timeframe from 2000 to 2007.[61] This leaves a financing gap of 21.7% that needed to be financed elsewhere. Back then Russian bank's solution was to borrow abroad "*in the form of Eurobonds and direct interbank lending.*"[62] Albeit having substantive capital exports, as seen in Table 1 column 3, the net capital imports outpace the exports and add up to a net total of $94,8 bn during 2000 to 2007. This shows the dependency of Russian bank's towards foreign capital markets' capital imports (Table 1 column 4).

The findings of this part could possibly be used in sanctions to put pressure on the Russian financial industry. In cases of transferring, importing, and exporting capital, geographical

[59] International Trade Statistics Yearbook, 2013
[60] The Russian Federation, 2003
[61] Alexeev, Weber, 2013, p. 561 f
[62] Alexeev, Weber, 2013, p. 562

distance becomes irrelevant. Every financial market becomes a possible supplier for Russian bank's capital and refinancing demand. Financial sanctions targeting the refinancing and thereby cutting off Russian banks from international capital markets could prove very effective. For one, it would impede the Russian economy getting credits and thereby exacerbating them in running and expanding their business, hence decelerating the economic growth of the whole economy. On the other hand, the knowledge of Russian individuals not trusting their banks with their wealth and rather deposit it in offshore accounts abroad, could be used to put pressure on certain individuals. While the average private household has only the possibility to store wealth in foreign currency, the elite Russian businessmen and politicians might have a wider array of possibilities to protect their wealth abroad. Individually sanctioning individuals of that caliber could possibly put pressure on the Russian government.

Despite the Western nations having a dominant advantage in terms of combined GNP, being 21 times larger than the Russian Federation, possibilities to make use of that effectively is quite scarce. Especially trade sanctions are in most cases not feasible, due to geographical distance in case of Australia and thereby the lack of overall trade in general, or due to strong dependencies between the trading parties, much like in the case of oil and gas trade between Russia and the EU. That does not signify that there are no options, just very few. The EU, Japan, and the United States are huge suppliers of manufactures goods for the Russian Federation. Issuing trade sanctions concerning these types of goods could put a lot of pressure on Russian economy that is dependent on it. Moreover, the Russian export economy lacks in terms of diversity (70.5% of all exports are fuels according to SITC 3[63]), thereby limiting the possibility to issue retaliation sanctions. In terms of financial sanctions possibilities, the Western coalition is particularly potent, harboring the top tier financial centers in the world.[64] With Russian bank's being highly dependent on foreign funds to finance Russia's economic growth, issuing financial sanctions that block these types of transaction could prove much more powerful than trade sanctions. Russia on the other hand lacks options to avert these types of sanctions, and could possibly give in.

[63] The World Bank, 2015
[64] The Qatar Financial Centre, 2014

4.2 Economic effects of sanctions on the United States

The thesis will go on to find out if there is observable evidence for economic effects on the heavily involved sanctioning parties, like the United States, the European Union and Russia. In the previous part it was established how possible economic sanctions could look like, for example by assessing trade relations and whether an advantage was evident on which one of the sides could capitalize on.

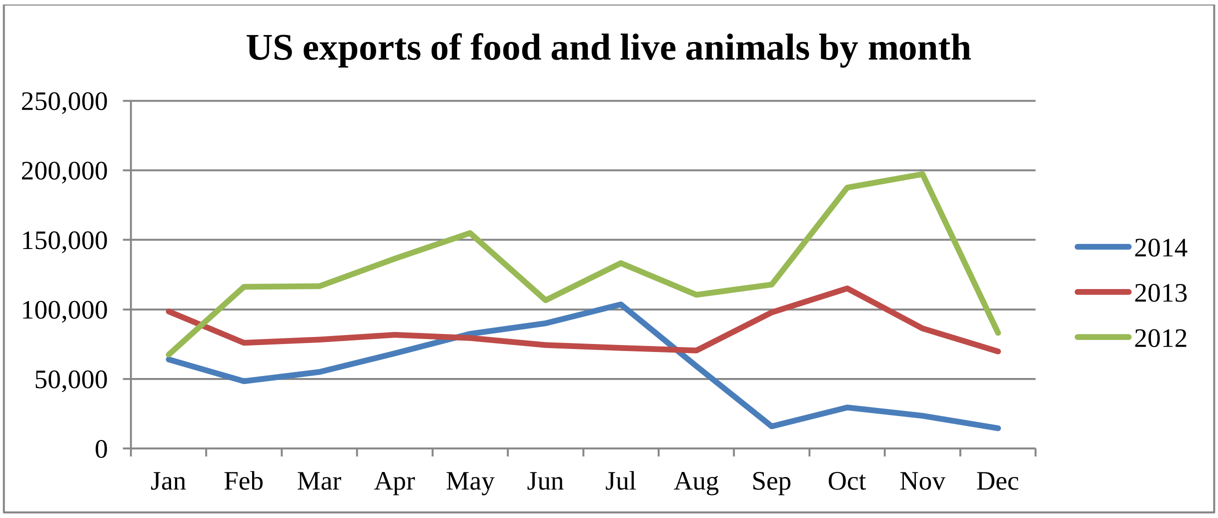

Figure 3 US exports of food and live animals by month **Data: United States Census (2015); own illustration y-axis: values in thousands of Dollars**

Rather surprisingly, the US was involved in Russian trade sanctions, that limited exports of food and live animals, as well as other agricultural products, to the Russian Federation. This sanction was issued by the Russian government in the beginning of August. As visible in Figure 3, the exports of the US regarding these products reached their annual high in July and with the introduction of the trade sanctions rapidly decreased in volume. It is fair to say that the sanctions clearly show an effect on the trade between the US and Russia, but the overall picture is different. The United States exported food and live animals with a value of $112,614,559 thousand US in 2014, while the cumulative export of food and live animals to Russia accounted for only $654,827 thousand US in 2014, an amount that is insignificant with an overall share of only 0.58% (c.f. Table 3). Furthermore, in recent trade from 2012 to 2013, the overall export of said goods decreased heavily from $1,528,152 thousand US in 2012 to $1,000,300 thousand US in 2013, a decrease of more than 34%, even without sanctions in place.[65] According to these numbers it is fair to say that the US American foodstuffs and agricultural industry does not need to fear the Russian import sanction, for they are very insignificant overall, especially because total exports to the rest of the world have increased while exports to Russia decreased. (c.f. Table 2)

	Exports to Russia	Percentage share	Exports to rest of the world	Percentage share
2014	654,827	0.58%	111,959,732	99.42%
2013	1,000,300	0.94%	105,973,094	99.06%
2012	1,528,152	1.52%	98,892,899	98.48%
Note: Values in thousand $US				

Table 2 US export statistics (food and live animals) to Russia and the rest of the world Data: United States Census

Other sanctions that were targeted towards the US, included sanctions of individuals. These individuals were restricted the entry in the Russian Federation; frozen assets as in other sanctions during the conflict were not part of the sanctions against US individuals. These sanctions did not have any effect on the US economy. Furthermore the US issued financial sanctions against the Russian Federation. Determining the cost of the financial sanctions to the US economy is difficult. Other than goods, money is a very liquid asset that can be moved around quickly, meaning that the restriction of giving credit to Russian banks and businesses leads the money to other receivers with demand. If there are widespread costs due to the financial sanctions they should be visible in major economic indicators like the GDP and the stock markets.

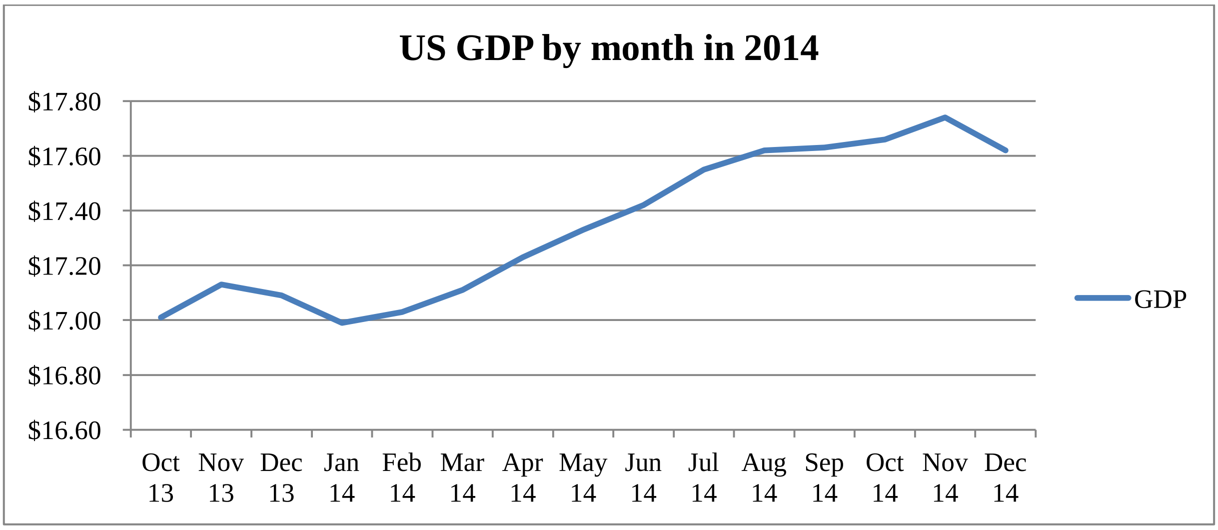

Figure 4 US GDP by month in 2014 **Data: ycharts (2015); own illustration y-axis: values in trillion $US**

[65] All mentioned numbers originate from the United States Census

Neither the GDP, nor the quotation of the Dow Jones Industrial Average© (c.f. Figure 5) and the NASDAQ Composite Index© (c.f. Appendix) show any sign of a major loss due to financial sanctions against Russia. Right around the time of the issuing of the sanctions both indices showed a decrease in their quotation. Taking a closer look on the timing reveals that the financial sanctions by the US against the Russian Federation were imposed on July 29th and September 12th. While the first drop could be explained by the newly imposed sanctions, the second drop seems to be delayed, or even unrelated to the sanctions. Nevertheless both indices recovered after the decrease in quotation within a month. As for the GDP, there is a steady growth in GDP in the US during 2014 (with the exception of December) and no signs of any decrease that could be related to any sanction. The United States have managed to impose sanctions upon the Russian Federation without the risk of effects and cost that would backlash on their own economy.

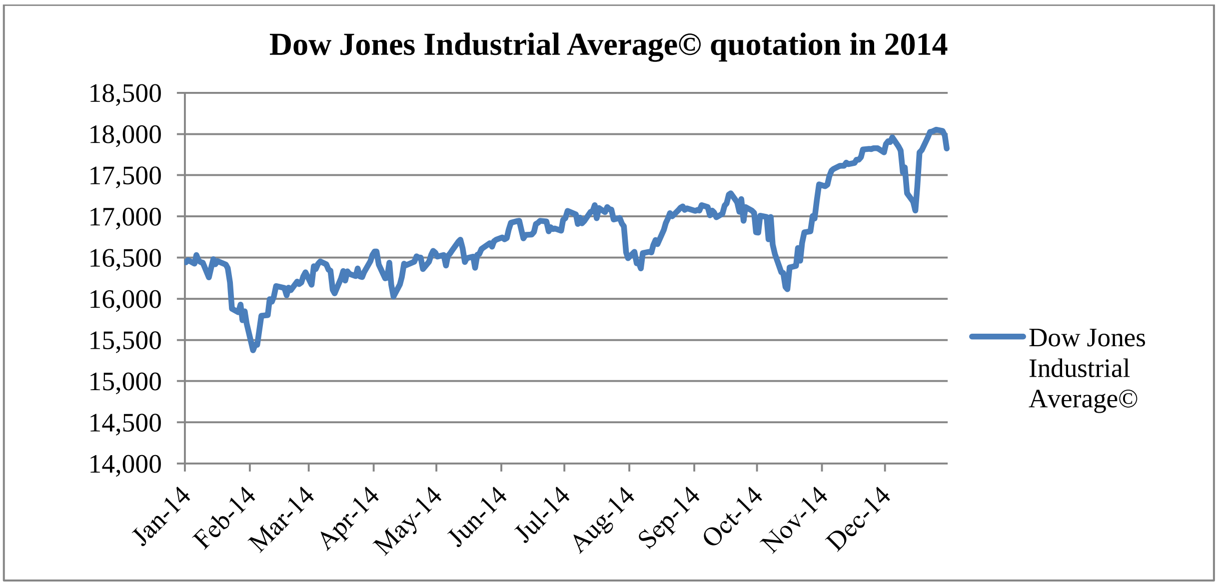

Figure 5 Quotation of the Dow Jones Industrial Average© in 2014 **Data: Federal Reserve Bank of St. Louis (2015); own illustration y-axis: values in points**

4.3 Economic effects of sanctions on the European Union

While the United States are not very susceptible towards Russian import sanctions due to lack of overall trade linkage, it could be the other way around for the European Union. As mentioned in previous parts of the thesis, the EU and Russia have a strong trading relationship, hence making both sides vulnerable to trade sanctions. Starting off again with the Russian import ban of foodstuffs and agricultural products, it was again a surprising move since the Russian Federation had no leverage with any good in trade with the European Union. The 28 states of the EU exported a total of 6,441.9 million Euro worth of goods of the SITC group 0 (Food and live animals) to the Russian Federation in 2014. That is only a share of 8.12% of the total exports of goods of that SITC group (78,892 million Euro). If the import ban shows a negative effect on the overall export statistic concerning these goods, it could be rendered a success for Russian sanction architects.

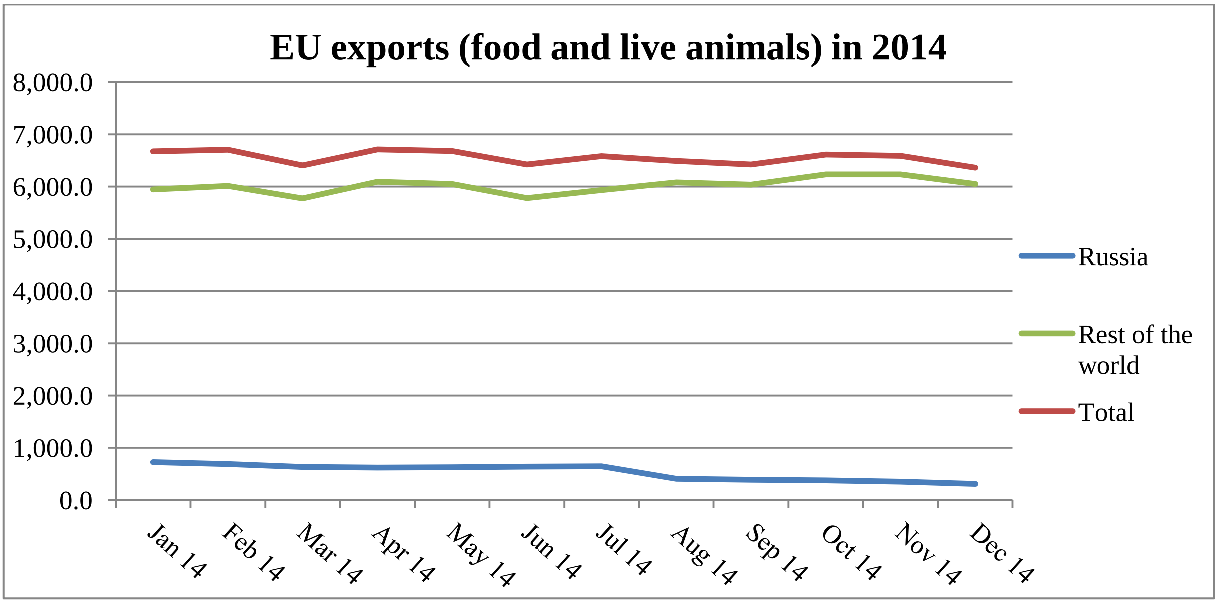

Figure 6 EU exports (food and live animals) in 2014 **Data: Eurostat (2015); own illustration, y-axis values in mio Euro**

As visible in Figure 6, the Russian import ban showed a negative effect on the trade between the EU and Russia between July and August 2014, when the sanctions were first initiated, and remained stable on this low level (a closer look on the isolated EU-Russian export statistics can be found in the Appendix Figure 12). Albeit the drop in exports to the Russian Federation, member states of the EU found other takers for their goods. While the total exports remained on a stable level, total trade to the rest of the world showed a slight increase with the introduction of Russian sanctions, visible in Figure 6, as the distance between the graphs of "Total" and "Rest of the world" decreased. The import ban did not show any devastating economic effect for the EU overall, which leaves open the question whether economic damage to the Union was Russia's intent in the first place. According to a hypothesis of Zweynert, Russia could try to drive a wedge between the industrial oriented states and the agricultural oriented states of the EU[66], of which the latter are conveniently found in the east and were part of Warsaw Pact. In order to identify countries within the EU that traded goods

[66] Zweynert, 2014

of SITC 0 with Russia on a high level, a comparison between the value of trade with Russia and the trade with the rest of the world was made. Only 3 nations within the EU had 4 or more months prior to the sanctions that had higher trade value with Russia than the rest of the world: Estonia, Finland, and Lithuania.

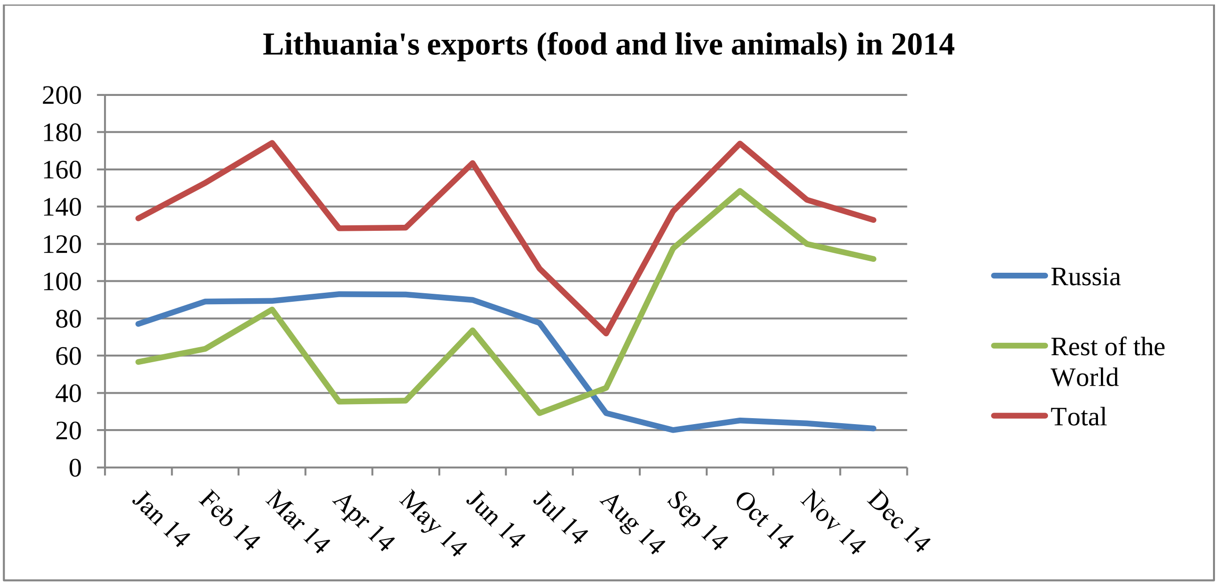

Figure 7 Lithuania's exports (food and live animals) in 2014 **Data: Eurostat (2015); own illustration, y-axis values in mio Euro**

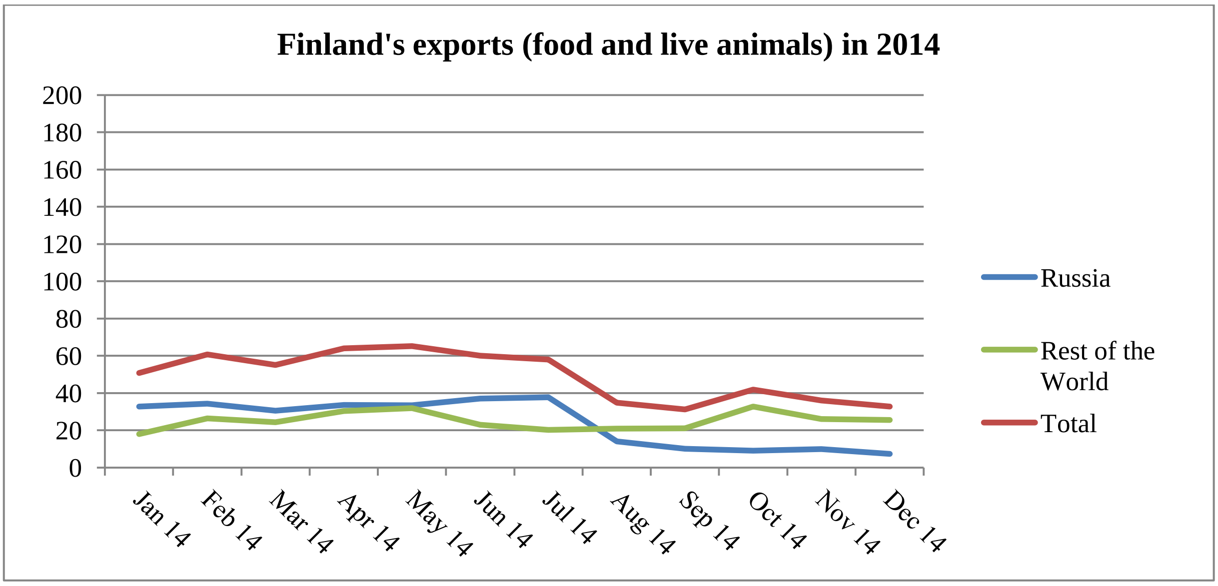

Figure 8 Finland's exports (food and live animals) in 2014 Data: Eurostat (2015); own illustration, y-axis values in mio Euro

The cases of Finland and Lithuania play out differently. Lithuania exported goods of SITC 0 to Russia with a value of well above 80 million Euro per month, and was particularly hit with the import sanctions. With decreasing trade with Russia came the overall trade decrease. But this effect did not last for very long and within a month Lithuania compensated trade losses with Russia by trade with the rest of the world (c.f. Figure 7). As visible in Figure 8, Finland's overall trade in SITC 0 goods did not recover as it did for Lithuania or other countries in the EU. Trade of SITC 0 goods with the rest of the world increased slightly after July 2014 but not to the point where it stabilized the total numbers. But Finland's export economy is not highly reliant on export of foodstuffs and agricultural products as the top exported goods in 2013 were manufactured goods and machinery[67], a trend unlikely to be different in 2014. The last identified country Estonia showed a similar development to Lithuania, with the exception that Estonia's exports to Russia are not as critical. Furthermore, the slight decrease that came with the import ban was followed up by a spike in export activity (c.f. Appendix Figure 13). Other eastern European countries that are member states of the EU showed effects contrary to the hypothesis. Much like in the case of Lithuania, overall export dropped in the month after the import sanctions and recovered by diverting trade to the rest of the world. The exception to those cases is Hungary, where trade with Russia even increased slightly after the import ban. Albeit being a valid attempt, Russian policy makers underestimated how quickly the economies could react to the imposed sanctions, inflicting less economic damage and unrest between member states than possibly expected.

Besides the import sanctions from the Russian side, also the export sanctions of machinery and transport equipment of the European Union could have a negative effect on the European economy in terms of lost sales. The export sanctions were imposed in late July 2014, so an effect should be visible in August. As visible in Figure 9, after the restriction of goods to certain Russian industries, the total trade and trade with the rest of the world increased. The trade with Russia did decline over the year 2014 (an isolated view of the graph can be found in the Appendix Figure 14). Over the year 2014, machinery and transport equipment exports decreased from month to month. There is no significant drop or indicator that the decrease accelerated with the introduction of export sanctions. Reason for that could be that the sanctions only targeted a certain industry making it less significant in overall export numbers.

[67] The World Bank, 2015

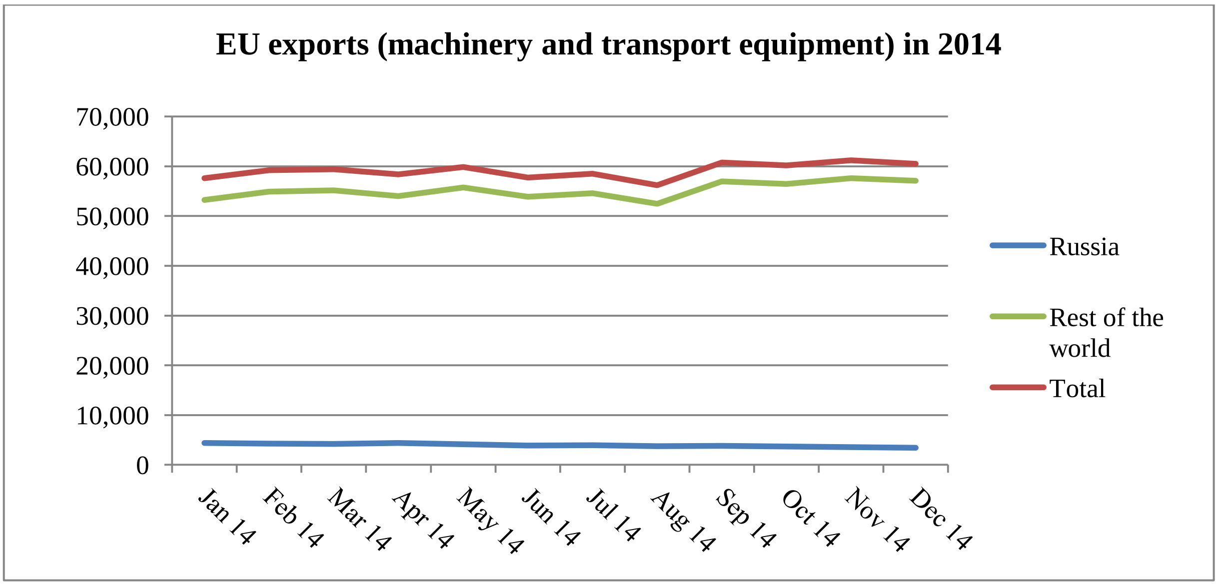

Figure 9 EU exports (machinery and transport equipment) in 2014 Data: Eurostat (2015); own illustration, y-axis: values in mio Euro

Shortly after the United States issued financial sanctions that blocked Russian banks from refinancing on the US financial markets, the EU followed the United States' example and imposed financial sanctions of their own in two steps, increasing the pressure with the second step, again similar to the US. To find out if possible costs from the financial sanctions did harm to the EU economy, data from European stock exchanges and the overall GDP will be assessed. One of the biggest stock exchanges in Europe is the DAX 30. As visible in Figure 10, shows sudden decreases around the time the financial sanctions were issued (late July, early September). Much like the US Dow Jones Industrial Average© index, the DAX 30 recovered both times from the hit, leading to the assumption that no long term damage was done by the financial sanctions and the DAX30 even achieved an all time high early in 2015.

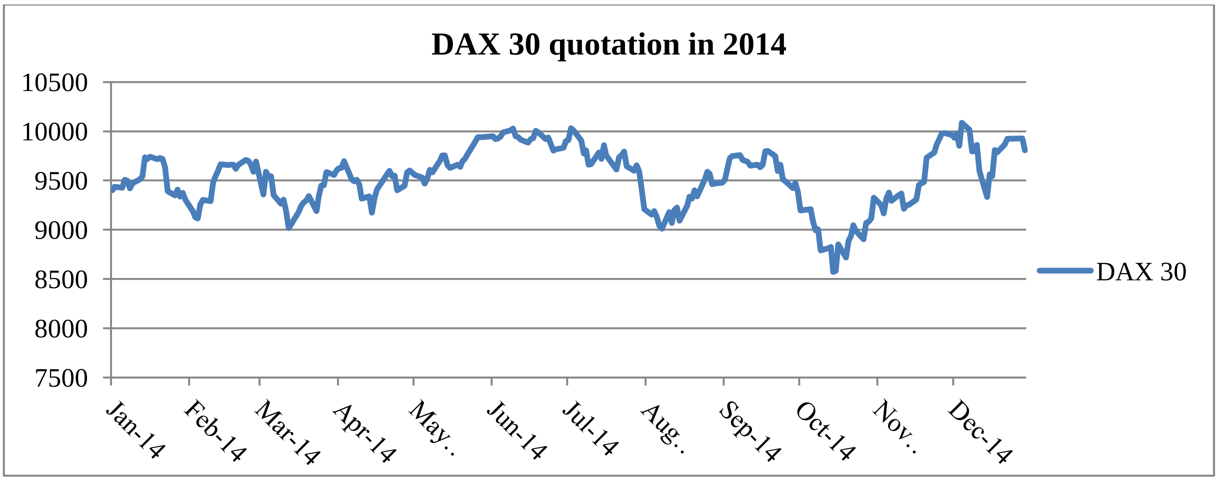

Figure 10 Quotation of the DAX 30 in 2014 Data: Boerse Frankfurt (2015); own illustration y-axis: values in points

Other stock exchanges in Europe like the Financial Times Stock Exchange (FTSE 100), showed similar fluctuation in quotation in reaction to the financial sanctions like in the DAX30 and the Dow Jones index (c.f. Appendix Figure 14). As for the GDP, at the time of conducting this thesis, the complete data for the most interesting fourth quarter of 2014, so after both steps of the financial sanctions, was not yet available. Despite the lack of data for the total GDP, the thesis will take a closer look on the GDP growth rate over the four quarters in 2014, which were released by Eurostat in February 2015.

	Percentage change compared with the previous quarter				**Percentage change compared with the same quarter of the previous year**			
	2014				**2014**			
	Q1	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**
EA 18	0.3	0.1	0.2	0.3	1.1	0.8	0.8	0.9
EA 19	0.3	0.1	0.2	0.3	1.1	0.8	0.8	0.9
EU 28	**0.4**	**0.2**	**0.3**	**0.4**	**1.5**	**1.3**	**1.3**	**1.3**

Table 3 GDP growth in the EU in 2014 Source: Eurostat (2015)

Despite the financial sanctions, the fourth quarter of 2014 was a successful one for the EU, outpacing the fourth quarter of 2013 and any quarter in 2014 respectively (c.f. Table 3). Concluding the content of this chapter, the EU was surprised by the import sanctions issued by the Russian Federation but was able to react quickly and divert the trade to other countries in the world, which soaked up for the loss of the Russian market. Furthermore prices for agricultural products and foodstuffs were not rising although other buyers had to be found, because all data was seasonally adjusted and overall there was no big loss in revenue visible. The export sanctions of machinery and transport equipment for certain Russian industries did not create any severe cost for the EU, it is questionable how effective they have been immediately but restricting these types of goods would decelerate development of that industry and leading to future losses in the targeted nation. Lastly the financial sanctions showed no long term loss for the EU, stock markets were able to recover within a month of the sanctions and the overall GDP even grew during that period of time.

4.4 Economic effects of sanctions on the Russian Federation

At last, the economic effects of the international sanctions on Russia will be determined. At the point of conducting the thesis, trade data from Russia for 2014 was either very scarce or unavailable. In order to interpret the possible effect on Russia, trade data of 2013 will be compared with existing data from the EU and US. Russia's total import of food and live animals (SITC 0) in 2013 was valued at 34,762.79 million Euro (41,715.35 million $US).[68] Of that, 25% or 8755,09 million Euro of all food and live animal imports came from the European Union[69], 2.8% (971.21 million Euro) from Norway[70], and additional 2.4% (835,26 million Euro) from the United States.[71] Given the fact that nearly a third of Russia's food imports come from the EU, Norway, and the US, the import sanctions must have had an effect on the Russian foodstuffs supply in 2014. An indicator for that is the inflation of food prices. According to "Trading Economics", at the beginning of 2014 the inflation on food prices was slightly above 5%. With the start of the conflict the inflation rose quickly to nearly 10% from April to September of 2014. After the introduction the import sanctions, inflation was on a steady rise from 16.4% in December 2014 to 22.8% in January 2015.[72] This data gives insight that even before the sanctions were imposed, food prices were on the rise and then quickly got even more expensive with the sanctions in place. The Russian government has the possibility to step in and introduce price controls on "socially significant" products if its price rose too quickly over a short period of time - a step not yet taken.[73] Due to an unfortunate combination of effects, Russia had to put higher tariffs on the export of grain. Because of the weak Ruble, it was more profitable for cultivators to sell grain elsewhere but in Russia even though food prices were on the rise, restricting the supply of food even more that it already was by the import sanctions. With the introduction of these tariffs, Russian policymakers hoped for lower prices for grain and higher domestic supply.

As for the effect of export sanctions for machinery and transport equipment by the EU to certain Russian industry, the outcome is vague due to the lack of data from the Russian Federation. Given the fact that only a special sector of Russia's industry was targeted and the export numbers did not drop significantly in 2014 on the EU side (c.f. Figure 9) it is questionable if there was any immediate effect or damage to the Russian economy. Since machinery is usually a long term investment for growth, the lack thereof could be a factor in the future when old machinery has not been replaced or growth potential could not be utilized.

[68] The World Bank, 2015
[69] Eurostat, 2015
[70] International Trade Statistic Yearbook, 2014
[71] United States Census, 2015
[72] Trading Economics, 2015
[73] The Moscow Times, 2015

With the financial sanctions imposed by the EU and the United States, Russian banks were cut off from international financial markets to refinance. This is especially of significance, because as mentioned in chapter 4.1, the Russian deposits cannot cover the demand for credits from the private industry, thereby forcing the banks to refinance internationally. One of the more prominent effects of the financial sanctions is the drop in value of the Ruble. Rather stable at an exchange rate of around 50 RUB/EUR in the beginning of 2014, the rate even went down until July 2014 when the first financial sanctions were issued. From this point on, the exchange rate was on the rise and with the second wave of financial sanctions, the Russian Ruble lost a lot of value in a short period of time, reaching a rate of nearly 90 RUB/EUR early in December 2014.

This devaluation of the Russian Ruble was not only the result of US and EU financial sanctions, but also by the massive drop in the oil price. Similar to the quotation of the Ruble, the Brent Oil price was at a high point in late June 2014 at 114.68 $US per barrel and dropped within half a year to a price of around 50 $US per barrel.[74] This drop in price was fueled by the decision of the Organization of Petrol Exporting Countries (OPEC) to not further limit the extraction of crude oil. Even before the oil price was as low as 50 US$ per barrel, the Russian Ruble had stabilized at a lower quotation.

Over the year the Russian Central Bank raised the base rate several times to stabilize the Russian Ruble. Starting with an early increase to 7.00% in March, the Russian base rate was increased in 4 steps until December 2014 to a rate of 17.00% to make Russia more attractive for investment and to stop capital flight. During the year 2014 capital flight was especially devastating. According to data from the Russian Central Bank, the total net outflows of capital by the private sector was 151.5 billion $US, a value that even outpaces the capital flight during the financial crisis in 2008 (133.6 billion $US c.f. Table 1). The fourth quarter specifically, so after the two waves of financial sanctions, is when most of the capital went out of the country. The net outflow of capital from January to September was 78.6 billion $US, and in the last quarter of 2014 the remaining 72.9 billion $UD left the country. Other measures taken by the Russian Central Bank was the sale of foreign currency in order to stabilize the Russian Ruble in the beginning of December 2014.[75] In late December 2014, state owned enterprises like Gazprom and Rosneft were encouraged to do the same in order to

[74] Wallstreet-Online, 2015
[75] Finanzen net, 2014

further stabilize the market. It was estimated that they would sell Dollars with a worth of one billion $US per day.[76] These measures seem to be effective having stabilized the Ruble at around 75 RUB/EUR since mid to late December 2014.

The turbulence in Russia's economic and financial sector leads to other negative side effects. The rating agency Standard&Poor's recently downgraded Russia's solvency to a BBB- with a negative outlook due to the fact that "*Russia's monetary policy flexibility has become more limited and its economic growth prospects have weakened.* [Standard&Poor's] *also see[s] a heightened risk that external and fiscal buffers will deteriorate due to rising external pressures and increased government support to the economy.*"[77] Other rating agencies have also downgraded the Russian solvency for similar reasons and a negative outlook as well. Moody's has downgraded Russia to a "not prime" rating of Ba1[78] and Fitch downgraded Russia to BBB-.[79] This downgrading will ultimately lead to a deteriorating situation for the Russian Federation because worse rating mean higher costs for credit. Another side effect for the critical situation in Russia is the fact that the Trust Bank had to get a big infusion of monetary funds by the government in order to avoid bankruptcy and experts believe that other banks will soon need similar help from the government.[80]

As previously discussed, Russia was facing a huge opposition from the start. But it has to be noticed that the current currency and financial crisis in Russia cannot be ascribed to Western financial sanctions alone. Western policymakers benefitted from the dropping oil price which came at the worst possible time for Russia and its economy. On the other hand, the Russian government proclaimed in the early 2000s to diversify the production of the country to be less dependent on the export of oil and gas. Throughout the years Russia benefited greatly from the income that came from the oil and gas industry and invested in it instead of diversifying as promised. The fact that Russia did not diversify and the drop in the oil price did happen only strengthens Western financial sanctions. Even worse for Russia, due to the side effects of the currency crisis, costs for the self imposed import ban of foodstuffs and agricultural products rose immensely. Of all the sanctioning parties, Russia is undoubtedly the most affected.

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[76] Reuters, 2014
[77] S&P, 2015
[78] Moody's, 2015
[79] Die Welt, 2015
[80] Reuters, 2014

4.5 Success of economic sanctions during the conflict

Since economic sanctions come with policy goals, the success of these goals will be assessed in this chapter. Reasoning behind Western sanctions was to secure the territorial integrity and sovereignty of the Ukraine, while political goals were kept vague. During the conflict it became somewhat obvious that the EU, the US, and their partners want to achieve the stop of a so-called "military adventure" by means of diplomatic dialogue instead of military force. Multiple meeting with high politicians of the concerning nations were held in Minsk, and treaties about cease fires were signed. Signing these treaties could count for a success, but they were never really adhered to. Instead the conflicts in the Ukraine went on and the call for military intervention grew stronger. At the point of conducting this thesis, no weapons have been delivered to the Ukraine, so the EU still hopes to defuse the situation by diplomatic means. Despite the economic sanctions showing success in affecting the Russian economy, political goals have not been met. At this point it is questionable when the conflict will come to an end.

As for the Russian side, the import ban on foodstuffs and agricultural products did backfire on the own economy, not knowing about the massive drop of the oil price. Furthermore it did not seem to affect the sanctioned countries particularly much. Going back to Zweynerts hypothesis that the import sanctions were not meant to be retaliating but rather driving a wedge between states of the EU. Going a bit further than just the divide between agricultural and industrial oriented countries of the EU, Russia could try to pick the EU apart, destroying their unity and thereby decisiveness - one of the success factors of economic sanctions. This becomes particularly evident when looking at the example of Hungary. Hungary, as previously discussed, was the only country in the EU that exported more food to the Russian Federation after the imposed sanctions. Moreover, Hungarian Prime Minister Viktor Orbán signed a beneficial gas deal with Russia.[81] Similar to this was the reluctance of France to stop the export of warships to Russia due to the imposed arms embargo.[82] While the import sanctions were a lost effort due to the quick reaction time by European exports and even backfired a bit on the Russian economy, the strategy of disrupting the unity might be very effective. The fact the Hungary is closer now to Russia can count to a small success for Russia, albeit it is questionable if other nations will follow.

[81] Sputnik, 2015
[82] NY Times, 2014

5 Conclusion

5.1 Main findings

This bachelor thesis was conducted to assess and determine the economic effects on the targeting and targeted states. For that purpose a closer look was given to the definition of sanctions, its varieties and how they work. Sanctions that were imposed during the conflict were classified into the categories described in the previous chapters. With the knowledge of that, in the last chapter economic key figures concerning these sanctions were sought out and visible effects were explained and assessed.

Sanctions are a diplomatic tool that coerces a targeted state by the means of threat of, or the introduction of economic restrictions, like trade restrictions, to change its political behavior. They were thought of as a tool that could replace military force in conflicts, yet is nowadays found in combination with it most of the time. Sanctions underwent significant changes in the recent century. Starting off as an embargo that blocked all trade between nations and thereby possibly cause horrendous humanitarian damage, policymakers made sanctions much more specific and targeted. Targeted sanctions now restrict only certain industries trade with other nations. Furthermore restrictive measures are imposed against individuals and entities, in order to circumvent humanitarian damage. Sanctions can come in the form of export and import restrictions, and nowadays with the importance of international financial markets, also in the form of financial sanctions. To sanction successfully, certain requirements are of advantage. Trade relations are very crucial, because without any trade between the sender and the target, it is less likely to be of any effect.

Sanctions that were imposed during the ongoing conflict are representative of the change in handling sanctions. Numerous sanctions from the Western nations and Russia were specifically targeted against individuals and entities, freezing assets and banning visas for them. In cases of trade restrictions, of which there was only one (excluding the arms embargo) by the EU, they were also targeted only on parts of the Russian economy. Russia on the other hand imposed much more extensive restrictive measure with the import sanctions on foodstuffs and agricultural products. Arguably the most important sanctions were the financial sanctions by the EU and the US before the fourth quarter of 2014.

The economic effects on the United States were minimal. The Russian import ban of foodstuffs and agricultural products was not a big issue for the US economy due to lack of trade relations in that sector. Furthermore the cost of financial sanctions did not seem to reflect on the US economy; both stock market and GDP remained stable and even grew over the year 2014. Overall the US has not really much at stake during the conflict other than power projection. The geographical distance is too great to effectively disturb trade so financial sanctions were the only option to support the other sanctioning partners. As for the EU, the import ban by the Russian Federation had an immediate impact on the export economy of the member states. More important though is the fact that the EU states were able to recover very quickly due to an increased export to other nations. Moreover, the EU issued sanctions against Russia where they had a clear advantage. If done widespread, Russia would have been in a much worse position. As it stands, the EU targeted only specific industries, limiting the potential damage that widespread export sanction for machinery and transport equipment could have done. The additional financial sanctions also did not result in devastating costs to the European Union. Overall the EU did manage the incoming sanctions by Russia very well while taking to significant damage from the imposed sanctions against Russia. The country that had the most obvious economic effects from international sanctions was Russia. The combination of the import ban, the financial sanctions, and the drop in the oil price resulted in a devastating currency crisis for Russia, with rising food prices and limited access to international financial markets. Albeit being hit very hard, Russia is not on the defense, trying to pick the EU apart by befriending member states like Hungary. Concurrently, the EU and US are having a very hard time maintaining sanctions as the only diplomatic action in order to force Russia to stop supporting separatists in Russia.

5.2 Critical acclaim

Especially the lack of trade statistic data from Russia for 2014 was unfortunate. Assessment of the actual economic effects could have been provided much more in detail with that information. Despite the lack of data, a big unknown variable was the oil price. The oil price had a very significant negative effect on the Russian economy, leaving open the question, if the financial sanctions alone would have created similar effects. As it stands, the EU and US are very fortunate to have support from the low oil price; something they probably could account for when thinking of sanctions, but will accept nonetheless.

5.3 Outlook

The beginning of the Ukrainian crisis was now over a year ago, and still in early 2015 it seems like no substantial diplomatic success that would end the fights in the Ukraine is in sight. Especially with recent treaties for cease fires, that were partially of fully ignored by the fighting parties it is questionable how long sanctions will be the only diplomatic tool in use. After the recent fights about the city Debalzewe, that was overtaken by separatists after the second treaty of Minsk that included a cease fire, the call for supporting the Ukraine with arms got much louder. Then again the conflict is "only" one year old. Effects on both sides may have not yet fully developed and will lead to surprising events in the future. As the thesis only discussed the economic effects regarding the nations not directly involved in the fights in the Ukraine, one should not forget that this conflict is much more than sanctions to punish the opponent's economy but also people suffering in the Ukraine.

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Appendix

Date	Sender	Action
06 March 2014	United States	Invoking the International Emergency Economic Powers Act and ordering sanctions against unspecified individuals.[83]
17 March 2014	EU	Suspending *"bilateral talks with the Russian Federation on visa matters as well as talks with the Russian Federation on a new comprehensive Agreement which would replace the existing Partnership and Cooperation Agreement"*[84]
17 March 2014	EU, Norway	Freezing of assets and visa bans against 21 individuals[85] [86]
17 March 2014	Canada	Freezing of assets and visa bans against 10 individuals[87] [88] [89]
17 March 2014	United States	Freezing of assets and visa bans against 11 individuals[90]
18 March 2014	Japan	*" suspension of consultation for easing visa regulations as well as freeze of launching negotiations of a new investment agreement, an outer space cooperation agreement and an agreement for prevention of dangerous military activities"*[91]
20 March 2014	United States	Freezing of assets against 20 individuals and 1 entity[92]
20 March 2014	Russia	Visa bans against 9 US individuals[93]
21 March 2014	EU, Norway	Freezing of assets and visa bans against 12 individuals[94] [95]
24 March	Russia	Visa bans against 13 Canadian individuals[96]

83 http://www.whitehouse.gov/the-press-office/2014/03/06/executive-order-blocking-property-certain-persons-contributing-situation
84 Council of the Euopean Union L78/16
85 Council of the Euopean Union L78/19ff
86 https://lovdata.no/dokument/LTI/forskrift/2014-03-21-301
87 http://www.pm.gc.ca/eng/news/2014/03/17/sanctions-list
88 http://gazette.gc.ca/rp-pr/p2/2014/2014-04-09/html/sor-dors60-eng.php
89 http://gazette.gc.ca/rp-pr/p2/2014/2014-04-09/html/sor-dors58-eng.php
90 http://www.whitehouse.gov/the-press-office/2014/03/17/fact-sheet-ukraine-related-sanctions
91 http://www.mofa.go.jp/press/release/press4e_000239 html
92 http://www.treasury.gov/press-center/press-releases/Pages/jl23331.aspx
93 http://www.mid ru/brp_4 nsf/newsline/177739554DA10C8B44257CA100551FFE
94 Council of the European Union L86/31f
95 https://lovdata.no/dokument/LTI/forskrift/2014-08-15-1076
96 http://www.mid ru/brp_4 nsf/newsline/AE6A79E0EFBBD9FB44257CA5004FBBDF

2014		
02 April 2014	Switzerland	Freezing of assets and visa bans against 33 individuals[97]
11 April 2014	Albania, Iceland, Montenegro	Freezing of assets and visa bans against 21 individuals[98]
28 April 2014	United States	Freezing of assets and visa bans against 7 individuals and 17 entities[99]
29 April 2014	EU, Norway	Freezing of assets and visa bans against 15 individuals[100] [101]
02 May 2014	Switzerland	Freezing of assets and visa bans against 15 individuals[102]
12 May 2014	EU, Norway	Freezing of assets and visa bans against 13 individuals and 2 entities[103] [104]
20 May 2014	Switzerland	Freezing of assets and visa bans against 13 individuals and 2 entities[105]
19 June 2014	Australia	Freezing of assets and visa bans against 51 individuals and 14 entities[106]
16 July 2014	United States	*"Treasury imposed sanctions that prohibit U.S. persons from providing new financing to two major Russian financial institutions (Gazprombank OAO and VEB) and two Russian energy firms (OAO Novatek and Rosneft), limiting their access to U.S. capital markets"* and additional freezing of assets and visa bans against 5 individuals and 11 entities[107]
25 July 2014	EU, Norway	Freezing of assets and visa bans against 15 individuals and 9 entities *"whose ownership has been transferred contrary to Ukrainian law"*[108] [109]
29 July 2014	United States	*"[...] measures prohibiting U.S. persons and persons within the United States from transacting in, providing financing for, or otherwise dealing*

[97] Schweizerische Eidgenossenschaft State Secretariat for Economic Affairs SECO 02.04.2014
[98] EU Press, 2014
[99] http://www.treasury.gov/press-center/press-releases/Pages/jl2369.aspx
[100] Council of the Euopean Union L126/49f
[101] https://lovdata.no/dokument/LTI/forskrift/2014-08-15-1076
[102] Schweizerische Eidgenossenschaft State Secretariat for Economic Affairs SECO 02.05.2014
[103] Council of the Euopean Union L137/11f
[104] https://lovdata.no/dokument/LTI/forskrift/2014-08-15-1076
[105] Schweizerische Eidgenossenschaft State Secretariat for Economic Affairs SECO 20.05.2014
[106] Australian Government - Department of Foreign Affairs and Trade, Consolidated List
[107] http://www.treasury.gov/press-center/press-releases/Pages/jl2572.aspx
[108] Council of the Euopean Union L221/17ff & L221/23ff
[109] https://lovdata.no/dokument/LTI/forskrift/2014-07-29-1022

		in new debt of longer than 90 days maturity or new equity for Bank of Moscow, Russian Agricultural Bank, and VTB Bank OAO, their property, or their interests in property. [...], this step will severely limit these banks' access to medium- and long-term U.S. dollar financing, and will impose additional significant costs on the Russian Government for its continued activities in Ukraine" and freezing of assets of 1 entity[110]
30 July 2014	EU, Norway	Freezing of assets and visa bans against 8 individuals and 3 entities[111] [112]
31 July 2014	EU	Export restrictions of technology used in oil production and financial restrictions against 5 Russian banks, similar to the measures taken by the US on 29 July 2014[113] Weapons embargo against Russia[114]
05 August 2014	Switzerland	Freezing of assets and visa bans against 26 individuals and 9 entities[115]
05 August 2014	Japan	Freezing of assets and visa bans against 40 individuals and 2 entities[116] and a restriction of imports *"of all goods from Ukraine (limited only to goods originating in the Autonomous Republic of Crimea or the City of Sevastopol)"*[117]
06 August 2014	Russia	Restriction for imports of agricultural products, raw materials and other foodstuffs against the EU, United States, Australia, Norway[118]
27 August 2014	Switzerland	Freezing of assets and visa bans against 8 individuals and 8 entities[119]
02 September 2014	Australia	Freezing of assets and visa bans against 64 individuals and 21 entities[120]
12 September	United States	Expanding and tightening of financial sanctions (30 day maturity) against Russian entities[121]

[110] http://www.treasury.gov/press-center/press-releases/Pages/jl2590.aspx
[111] Council of the Euopean Union L226/24ff
[112] https://lovdata.no/dokument/LTI/forskrift/2014-08-15-1076
[113] Council of the Euopean Union No. 833/2014
[114] Bundesamt für Wirtschaft und Ausfuhrkontrolle p.3f
[115] Eidgenossenschaft State Secretariat for Economic Affairs SECO 05.08.2014
[116] Ministry of Foreign Affairs of Japan Attachement
[117] http://www mofa.go.jp/press/release/press4e_000387.html
[118] Deutsch-Russische Außenhandelskammer
[119] Eidgenossenschaft State Secretariat for Economic Affairs SECO 27.08.2014
[120] Australian Government - Department of Foreign Affairs and Trade, Consolidated List

2014		
12 September 2014	EU	Restriction for export of dual-use products to certain Russian entities and financial sanctions against 6 Russian entities[122]
12 September 2014	EU, Norway	Freezing of assets and visa bans against 24 individuals[123] [124]
24 September 2014	Japan	Limiting operations of 5 Russian banks, and arms exports [125]
12 November 2014	Switzerland	Freezing of assets and visa bans against 24 individuals and 15 entities[126]
05 December 2014	EU	Export restrictions against 9 Russian entities[127]
19 December 2014	United States	Ban of all business within the Crimea region and visa bans for all individuals who operate or lead an entity in said region, "*or to have materially assisted, sponsored, or provided financial, material, or technological support for, or goods or services to or in support of, any person whose property and interests in property are blocked pursuant to this order"*[128]

Table 4 List of relevant sanctions during the Ukraine crisis

[121] http://www.treasury.gov/press-center/press-releases/Pages/jl2629.aspx
[122] Council of the Euopean Union No. 960/2014
[123] Council of the Euopean Union L271/49-53
[124] https://lovdata.no/dokument/LTI/forskrift/2014-10-10-1278
[125] Ministry of Foreign Affairs of Japan, 2014
[126] Eidgenossenschaft State Secretariat for Economic Affairs SECO 12.11.2014
[127] Council of the Euopean Union No. 1290/2014
[128] Barrack Obama, 2014, p.1

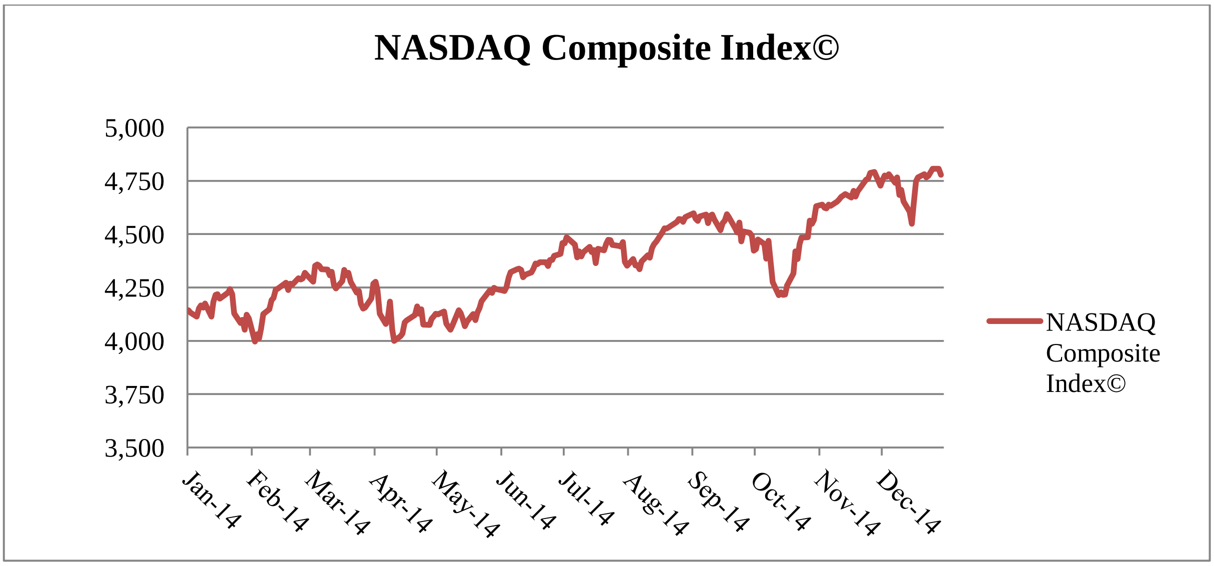

Figure 11 Quotation of the NASDAQ Composite Index© in 2014 **Data: Federal Reserve Bank of St. Louis (2015); own illustration y-axis: values in points**

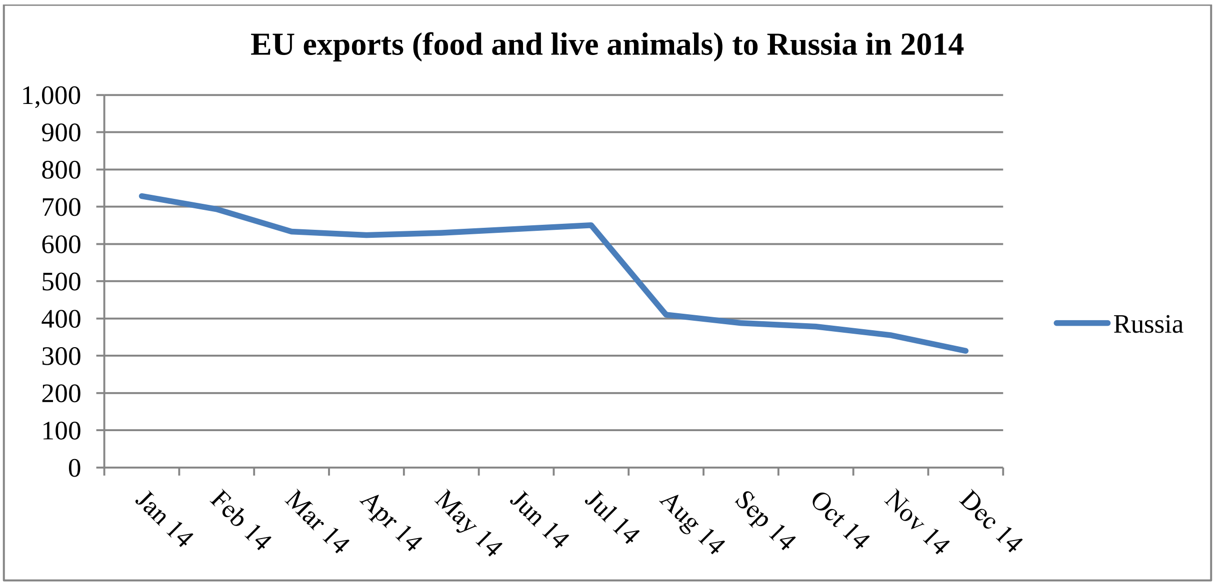

Figure 12 EU exports (food and live animals) to Russia in 2014 **Data: Eurostat (2015); own illustration**

y-axis: values in mio Euro

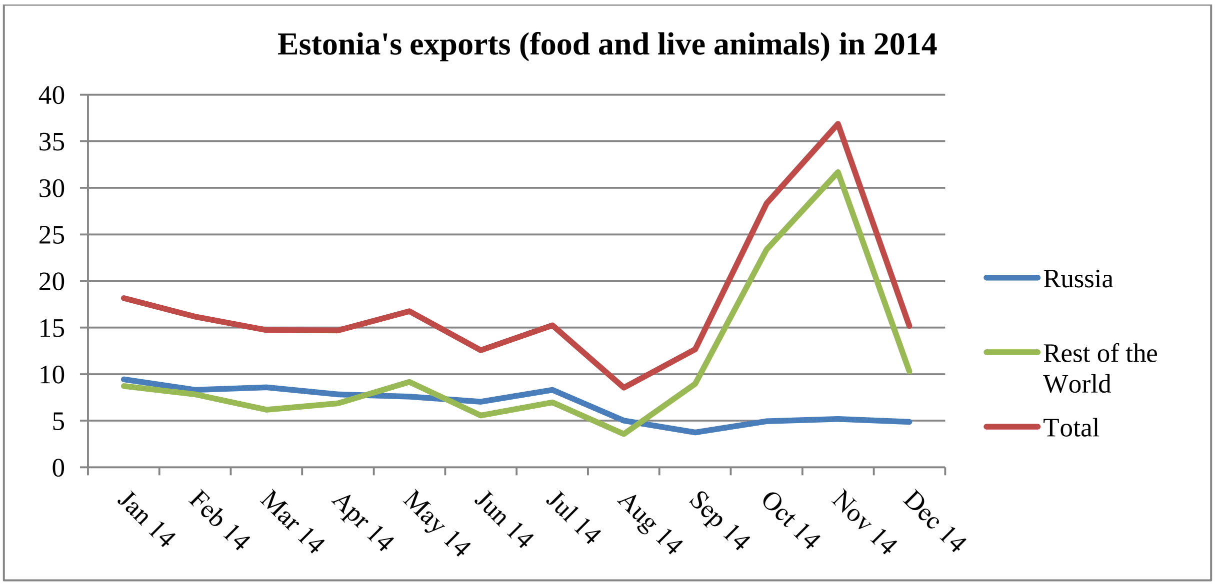

Figure 13 Estonia's exports (food and live animals) in 2014 **Data: Eurostat (2015); own illustration y-axis: values in mio Euro**

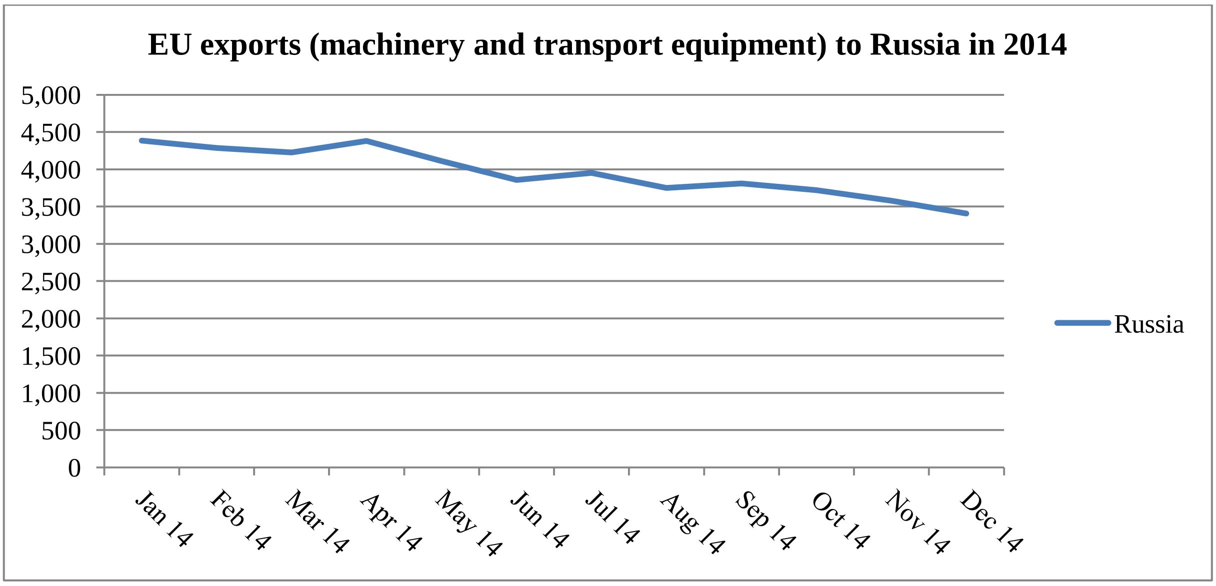

Figure 14 EU exports (machinery and transport equipment) to Russia in 2014 **Data: Eurostat (2015); own illustration y-axis: values in mio Euro**

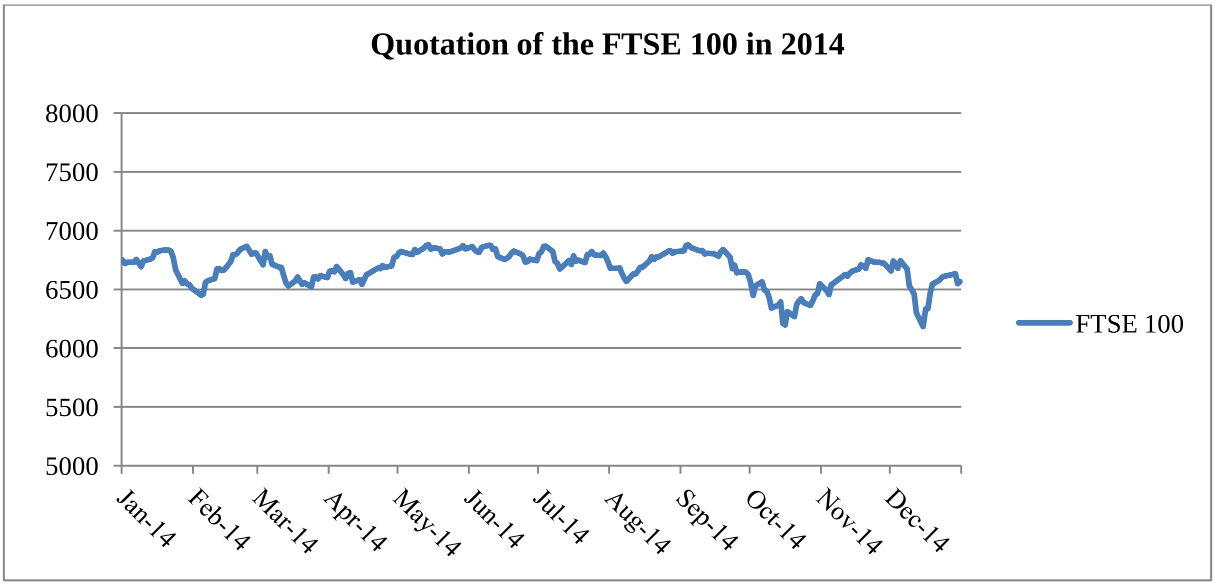

Figure 15 Quotation of the FTSE 100 in 2014 **Data: London Stock Exchange (2015); own illustration y-axis: values in points**

Declaration of originality

I hereby declare that this bachelor thesis and the work reported herein was composed by and originated entirely from me. Information derived from the published and unpublished work of others has been acknowledged in the text and references are given in the list of references.

Declaration of consent

I hereby agree that a copy of this bachelor thesis will be admitted to the library of the faculty. Third party rights were not infringed.

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Jan-Hendrik Schünemann